



SDMS DocID 559611



REC'D JAN 17 1990

GTE Products Corporation  
100 Endicott Street  
Danvers, MA 01923  
508 777-1900

January 16, 1990

Mr. Steven J. Calder,  
Remedial Project Manager  
U.S. Environmental Protection Agency  
P.O. Box 5988  
JFK Station  
Boston, MA 02114

Superfund Records Center  
SITE: Coakley  
BREAK: 11.9  
OTHER: 559611

RE: Response to Request for Information Pursuant to Section 104 of  
CERCLA and Section 3007 of RCRA for the Coakley Landfill Site,  
North Hampton, New Hampshire

Dear Mr. Calder:

This is in response to your letter dated December 4, 1989 addressed to the President or General Manager, GTE Products Corporation DEL, Portsmouth Avenue, Exeter, New Hampshire ("Exeter") regarding the Coakley Landfill Site ("Site"). As I indicated to Mr. Timothy Williamson on the telephone earlier this week, the EPA's Request for Information dated August 10, 1988 referenced and enclosed in its most recent correspondence dated December 4, 1989 was never received at the Exeter plant.

Based on a review of records readily available, Exeter was not able to locate any information or documentation in its possession, custody or control relating to the transportation to, treatment of, storage, or disposal of hazardous substances at the Coakley Landfill Site.

In an effort to be fully responsive to the EPA's Information Request, the following are Exeter's responses to the requests set forth in "Attachment A" of the EPA's August 4, 1988 letter:

GENERAL INFORMATION

1. John Hamilton, Senior Engineer  
GTE Products Corporation  
Portsmouth Avenue  
Exeter, NH 03833
2. Mr. Mike Fitzgerald  
Clean Harbors  
#9 Hooksett Industrial Park  
Hooksett, NH 03106

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Remedial Project Engineer  
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2. Mr. Steven Weiner  
GSX Northeast Inc.  
220 Sutton Street  
N. Andover, MA 01840

Ms. Janice Cassidy  
Waste Management of New Hampshire, Inc.  
90 Rochester Neck Road  
Rochester, NH 03867

Lynn Johnson, Purchasing Department  
GTE Products Corporation  
Portsmouth Avenue  
Exeter, NH

Muriel Brumage, Accounts Payable  
GTE Products Corporation  
Portsmouth Avenue  
Exeter, NH

3. Hazardous Waste Manifests, purchasing and financial records were consulted, but no documents were located relating to the transportation to, treatment of, storage, or disposal of hazardous substances at the Coakley Landfill Site.
4. We have no knowledge of any other persons who may be able to provide additional information or documents relating to the Site.
5. Unknown.
6. Unknown.
7. Not Applicable.

#### FINANCIAL/CORPORATE INFORMATION

8. GTE Products Corporation  
100 Endicott Street  
Danvers, MA 01923  
President: Dean T. Langford

##### Former Names of Company:

12/24/58 - SEPCO, Inc.  
2/25/59 - Sylvania Electric Products, Inc.  
12/23/70 - GT&E Sylvania Incorporated  
12/31/70 - GTE Sylvania Incorporated  
1/9/80 - GTE Products Corporation

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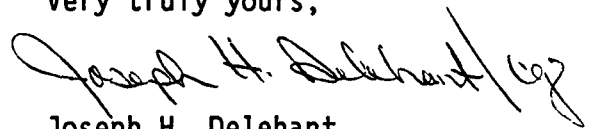
9. GTE Products Corporation is a subsidiary of GTE Products of Connecticut Corporation. GTE Products of Connecticut Corporation is essentially a holding company and was incorporated on January 31, 1977.
10. GTE Products Corporation was incorporated on December 24, 1958. Its agents for service are CT Corporation System and Prentice Hall Corporation System.
11. Exeter is a part of GTE Products Corporation and manufactures high-technology materials and high-purity quartz products.
12. GTE Corporation and its wholly owned affiliates and subsidiaries have been insured by the Kemper Group since 1962. The pollution exclusion clause has been part of the aforementioned insurance contract since 1976. GTE Corporation is also insured by a variety of additional companies.
13. Please refer to GTE Corporation's 1988 Annual Report enclosed herewith for information relating to GTE's current assets, liabilities and net worth.

GENERATOR/TRANSPORTER INFORMATION

14. No, not to our knowledge.
15. No, not to our knowledge.

If you have any further questions, you can reach me at the letterhead address, or by telephone at (508) 750-2479.

Very truly yours,

  
Joseph H. Delehant  
Senior Attorney



**GTE**  
1988 Annual Report

# The Power

Major Groups	Products/Services	Markets	Locations	1988 (In Millions) 1987			
				Revenues/ Sales	Income*	Revenues/ Sales	Income*
			Employees: 104,000	\$11,686	\$2,718	\$11,158	\$2,879
<b>GTE Telephone Operations</b> (page 18)	Provides local telephone service, markets, leases and sells telecommunications products and services, supplies voice and data systems	Residential, business and government customers within franchise areas; business users of telecommunications products and systems outside of franchise areas.	Headquarters: Irving, Tex. Four operating areas serve 7,500 communities in portions of 31 states. Also serves British Columbia and Quebec in Canada, and the Dominican Republic.				
			Employees: 22,000	\$ 2,597	\$ 106	\$ 2,210	\$ 52
<b>GTE Government Systems</b> (page 19)	Command, control, communications and intelligence systems; electronic defense systems; tactical communication systems; communication switching and information systems.	Defense, government and industry in the United States and abroad.	Headquarters: Waltham, Mass. Its three operating sectors are: Command, Control and Communications Systems, Needham, Mass., Electronic Defense, Mountain View, Calif.; and Tactical Systems, Taunton, Mass.				
<b>GTE Information Services</b> (page 20)	Provides telephone directories, directory advertising and related services; operates communications networks, manages computer centers and database systems, processes high volumes of business transactions; and offers a voice messaging service.	Directories' services provided to telephone companies, commercial businesses with consumer audiences, computer-based services marketed to several industries, including health, education and government; voice messaging serves businesses nationwide.	Headquarters: Tampa, Fla.; GTE Directories' headquarters: Dallas, Tex. with offices and production facilities located in 27 states and 11 countries.				
<b>GTE Mobile Communications</b> (page 20)	Provides cellular mobile telephone service; markets cellular products; offers paging services; and provides air-to-ground telephone service for airline passengers.	Offers cellular telephone service and products in 34 metropolitan areas, paging services in GTE Telephone Operations' areas; telephone service on over 900 planes of 16 airlines.	Headquarters of GTE Mobile Communications and GTE Mobilnet: Houston, Tex., headquarters of GTE Airfone. Oakbrook, Ill.				
<b>GTE Spacenet</b> (page 21)	Satellite-based telecommunications services; Skystar® private data and video network services; and U.S. and international earth station systems	Retail, financial services and broadcast industries; health care and educational institutions; and government agencies.	Headquarters: McLean, Va.; International Systems Division: Waltham, Mass. Operates 30 earth stations and support facilities in 16 states				
<b>AG Communication Systems</b> (page 23)	A joint venture with AT&T, the unit develops, manufactures and markets advanced digital central office switching systems	Telephone companies, business, institutional and government agencies	Headquarters and R&D facility: Phoenix, Ariz.; two manufacturing facilities in the U.S.				
			Employees: 29,000	\$ 2,237	\$ 228	\$ 2,129	\$ 222
<b>GTE's Lighting Business</b> (page 22)	Manufactures more than 6,000 types of Sylvania lamps. Also produces automotive lighting products, lamp fixtures and lighting components.	Residential, commercial and industrial customers in the United States, Canada, Europe, Latin America and the Far East.	Headquarters: Danvers, Mass.; 19 plants located in 7 states and Puerto Rico; and 23 plants located in 13 other countries.				
<b>GTE Precision Materials</b> (page 22)	Manufactures metal, plastic, ceramic and other precision-engineered materials, parts and components; specialty and refractory metals, high-purity chemicals and electronic assemblies.	Aerospace, automotive, computer, communications, lighting, electrical and electronics industries.	Headquarters: Danvers, Mass.; 59 plants located in 13 states and Puerto Rico; 17 plants in 13 other countries.				
(page 23)	Conducts basic and applied research in communications, lighting and precision materials technologies.	All GTE operating groups; government agencies.	Headquarters: Waltham, Mass.				

\*Before other deductions and income taxes

## Highlights

### Consolidated Financial Highlights

	1988	1987	Change
			(In Millions)
<b>Consolidated</b>			
Revenues and Sales	\$16,460	\$15,421	6.7%
Income Before Other Deductions and Income Taxes	3,052	3,153	(3.2)
Net Income	1,225	1,119	9.5
Common Shareholders' Equity	8,127	7,759	4.7
Return on Common Equity	14.8%	14.0%	—
Average Common Shares (in thousands)	328,589	329,171	(.2)
<b>Per Common Share</b>			
Net Income	\$ 3.58	\$ 3.29	8.8%
Dividends	2.60	2.48	4.8
Book Value	24.91	23.83	4.5

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## To Our Shareholders

In 1988, we streamlined operations, established new businesses and strengthened our management team. These actions will ensure GTE's success in the competitive environment that lies ahead in the 1990s.

The course we have charted for the future will keep us in the businesses where we are strong and which we know best. But it also calls for GTE to be aggressive in capitalizing on new opportunities in our core businesses of telecommunications, lighting and precision materials by leveraging our wealth of knowledge and our strong financial position.

Our course is powered by three great forces: a sure sense of direction, financial strength and the commitment and enthusiasm of our employees.

Fueled by deregulation, telecommunications, our principal business, has become increasingly competitive in recent years. By the middle of the 1990s, deregulation will be almost complete. We have initiated numerous programs to ensure that we will be prepared for that time. Our strategy is to meet competitors head-on by providing products and services of higher quality and at lower costs.

We have made, and will continue to make, our telephone operations leaner, more flexible, more aggressive and more responsive to customers' needs. To achieve this, we have centralized our telephone companies under one general office with four operating areas. Also we have formed two new telecommunications groups to seize the opportunities offered by deregulation—one to provide information services and the other to provide mobile communications.

Lighting and precision materials, our two other core businesses, also have been revitalized, shedding businesses which are not germane to their operations, developing new products and concentrating on global competition.

We will aggressively seek growth for all of our businesses, both inside and outside the corporation. We will develop new businesses and make acquisitions based on realistic market projections. All these businesses must offer opportunities to leverage sales or reduce costs, and show promise of earning more than their cost of capital over their lifetimes.

We will not venture into businesses that are alien to our experience and culture, but we will make whatever other moves are necessary to adapt successfully to the future.

All of these actions are necessary to meet our principal financial objective: to maximize shareholders' total return on their investment in GTE.

To bring GTE's new sense of direction before the public and our employees, we have developed a new corporate theme: "The Power Is On." Our employees are already interpreting this new theme and direction, as you will see later in this report.

**"Our course is powered by three great forces: a sure sense of direction, financial strength and the commitment and enthusiasm of our employees."**

## **1988 Financial Highlights**

In 1988, GTE earned a record-high \$1.2 billion—representing a 9% increase over 1987's \$1.1 billion. It surpassed by approximately \$40 million our net income in 1986, the previous record year.

Consolidated revenues and sales of our three core businesses were \$16.5 billion, an increase of 7% over 1987—and also the highest in GTE history.

Earnings per share rose 9%, increasing to \$3.58 in 1988 from \$3.29 in the year before. Importantly, our return on equity rose in 1988 to 14.8% from 14% in 1987. Over the long term, our superior return on equity will drive similar total returns to our shareholders.

This strong financial performance was augmented by two major actions which yielded immediate benefits to our shareholders. Agreements were reached with United Telecommunications to acquire the majority of our interest in US Sprint and with AT&T to form a joint venture for our network-switching business.

These actions, combined with the steady improvement of our core businesses, greatly improved our financial position. In light of these positive developments, we were able to raise the common stock dividend in August by 6.3%—about double the prior annual increase. Additionally, we decided to repurchase 25 million shares of common stock, a program that is well under way.

The price of GTE's common stock rose by 26% in 1988—one of the highest increases for all of American industry. Total return was 34% for the year, double the increase for the Standard & Poor's 500 index of stocks.

## **Major Actions Taken**

Among the major actions taken during the year were:

- The sale of a 30.1% interest in US Sprint to United Telecommunications, our partner in the joint venture, with United having the option to acquire the remainder of US Sprint before the end of 1995. GTE also has the option of requiring United to purchase its remaining interest at any time between December 31, 1991 and December 31, 1995, at book value at the time.

The reduction of our interest in US Sprint brings immediate and long-range benefits. Immediate benefits are an improvement in earnings by eliminating the losses associated with the joint venture and an increased cash flow. Long-range, we will recoup about \$1.2 billion of the book value of US Sprint when United Telecom takes full ownership. Also of importance is the fact that the move enables us to concentrate more attention and resources on the areas of telecommunications in which we have been traditionally active.

- Formation of a joint venture, AG Communication Systems, with AT&T to provide our telephone customers with state-of-the-art, central-office equipment and enhanced services such as Integrated Services Digital Network (ISDN) features. The joint venture with AT&T will expedite development of software necessary to enhance the capabilities of our GTD-5 digital switch. This

**"Under the reorganization plan now  
being implemented, Telephone  
Operations will undergo the greatest  
structural change in its history."**



will enable local telephone companies to offer new services and features and help them meet their goals of improved quality and cost reduction.

- Initiation of a far-reaching reorganization of Telephone Operations, including a reduction in employees, in order to meet the challenges of intensifying competition, as well as to capitalize on the new marketing opportunities available in telecommunications.

Under the reorganization plan now being implemented, Telephone Operations will undergo the greatest structural change in its history. The seven telephone companies have been consolidated into a single national group serving four operating areas. A general headquarters consolidates certain services and functions previously performed by the separate operating companies and the previous group headquarters.

Streamlining Telephone Operations will result over time in a reduction of 14,000 positions and should produce operating costs equal to or better than our competitors'. It also will give us greater flexibility and agility in responding to changing customer requirements and expectations. In addition, it will enable us to capitalize more fully on our unique position as the only local-exchange carrier that is national in scope.

- During 1988, we also sold our 20% interest in Fujitsu GTE Business Systems to Fujitsu, our partner in the joint venture, and our Consumer Communications Products business to Code-A-Phone, a leading manufacturer of telephone instruments and answering machines. Moreover, we undertook a major repositioning of Precision Materials by discontinuing or selling a number of operations that were no longer critical to the group's long-term plans.

The combined effect of these actions is to make GTE leaner, more responsive to customer needs, better able to adapt to an increasingly competitive environment and more enterprising in identifying and capitalizing on growth opportunities.

### **Outlook**

In 1989, and beyond into the 1990s, our major core business, telecommunications, will experience great change. Communications users will require more sophisticated products and services. The installation of fiber-optic cable will accelerate, bringing many new services to residential and business customers. Cellular-telephone service will grow substantially. Deregulation, which has forever changed the telecommunications industry, will continue and, with it, competition will become more intense. Technology will be even more important. Because of technology and deregulation, new opportunities for the telecommunications industry will multiply as never before.

GTE is well positioned to succeed in this environment, with our established telephone and cellular-communications companies, aggressive competitive strategy and commitment to technology, such as the precedent-setting evaluation of advanced communications services now under way in Cerritos, California.

**"As we look forward to the future it is  
with growing confidence...based on our  
overall strength, clear sense of direction and  
commitment to excellence and leadership..."**

In our other two core businesses, lighting and precision materials, change has always been a major factor, and in the future this will intensify, and the markets will be less predictable. Global competition will play an increasingly important role, both at home and abroad. But with our established market base, our continued search for new technology and products, our emphasis on quality and our commitment to these businesses, we are confident of our success.

We look forward to strong performances by our major businesses during 1989. The actions taken during 1988, combined with the expected growth of the domestic economy, encourage us as we enter the new year. Many of the major programs begun in 1988 will continue into 1989 and we will be extra diligent to ensure their successful implementation.

### **Employees' Contribution**

A great deal of credit for the success we achieved in 1988 must go to our more than 159,000 employees throughout the world. The changes that GTE is going through have had a significant impact on many of our employees, but their commitment has exceeded our expectations. Their dedication to providing quality products and services has not diminished during these challenging times. At GTE, we value the people who make our corporation work, and our policy of rewarding them includes developing meaningful careers for women and minorities. In addition, we have aggressively carried out our policy of hiring minorities and women, and of training and retraining all our employees.

As we look back at what has been accomplished, it is only natural to recognize the contribution made by Theodore F. Brophy who retired as Chairman, Chief Executive Officer and a Director of GTE on April 30, 1988, after more than 30 years with the company. We wish him well in his future endeavors.

As we look forward to the future it is with growing confidence—a confidence based on our overall strength, clear sense of direction and commitment to excellence and leadership in our businesses. At GTE, The Power Is On.



**James L. Johnson**  
Chairman and Chief Executive Officer



**Charles R. Lee**  
President and Chief Operating Officer

February 24, 1989

Charles R. Lee was elected President, Chief Operating Officer and a Director of GTE, effective January 1, 1989. Mr. Lee is responsible for the day-to-day operation of GTE's three core businesses—telecommunications, lighting and precision materials. Previously, he was Senior Vice President—Finance and Planning. Mr. Lee, 49, served for nearly 25 years in various financial and management positions in the steel, transportation and entertainment industries and joined GTE in 1983 as Chief Financial Officer. As a member of GTE's Policy Committee, Mr. Lee has been dedicated to improving GTE's quality and competitiveness while ensuring maximum return to our shareholders.



**In 1988, GTE positioned itself to compete in the 1990s with a restructuring of its businesses, a consolidation of telephone operating companies and the formation of a new spirit that is aggressive, responsive and energetic. Adding these bold actions to our traditional financial strength places us in an unparalleled position to deal with the future.**

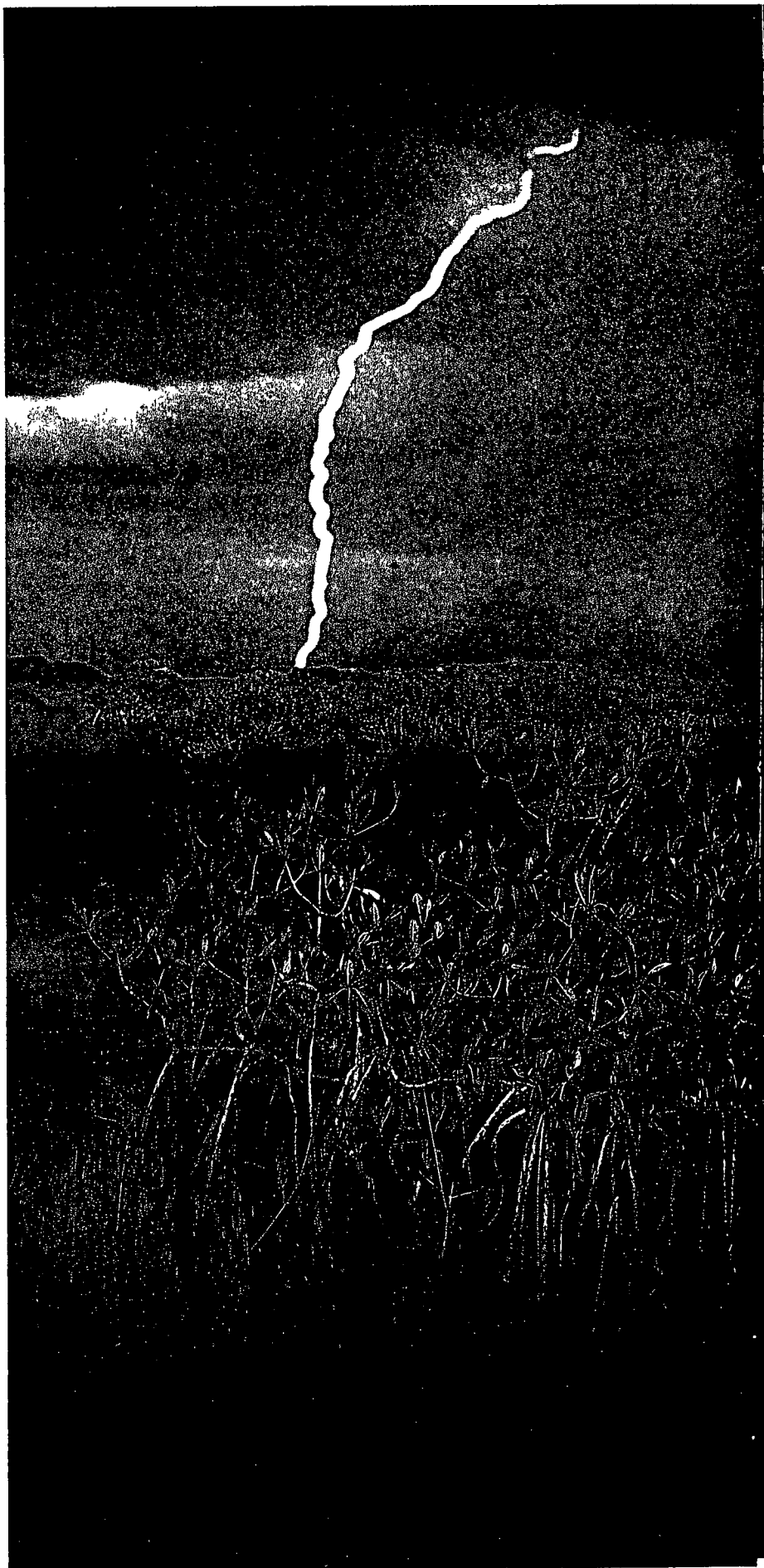
**GTE is a changed corporation. Its telephone operations are no longer just "the telephone company." They are now operating in a competitive, marketing-oriented world. Our lighting and precision materials groups have honed their operations, spun off some peripheral businesses and are prepared to face the global competition which is escalating both at home and abroad.**

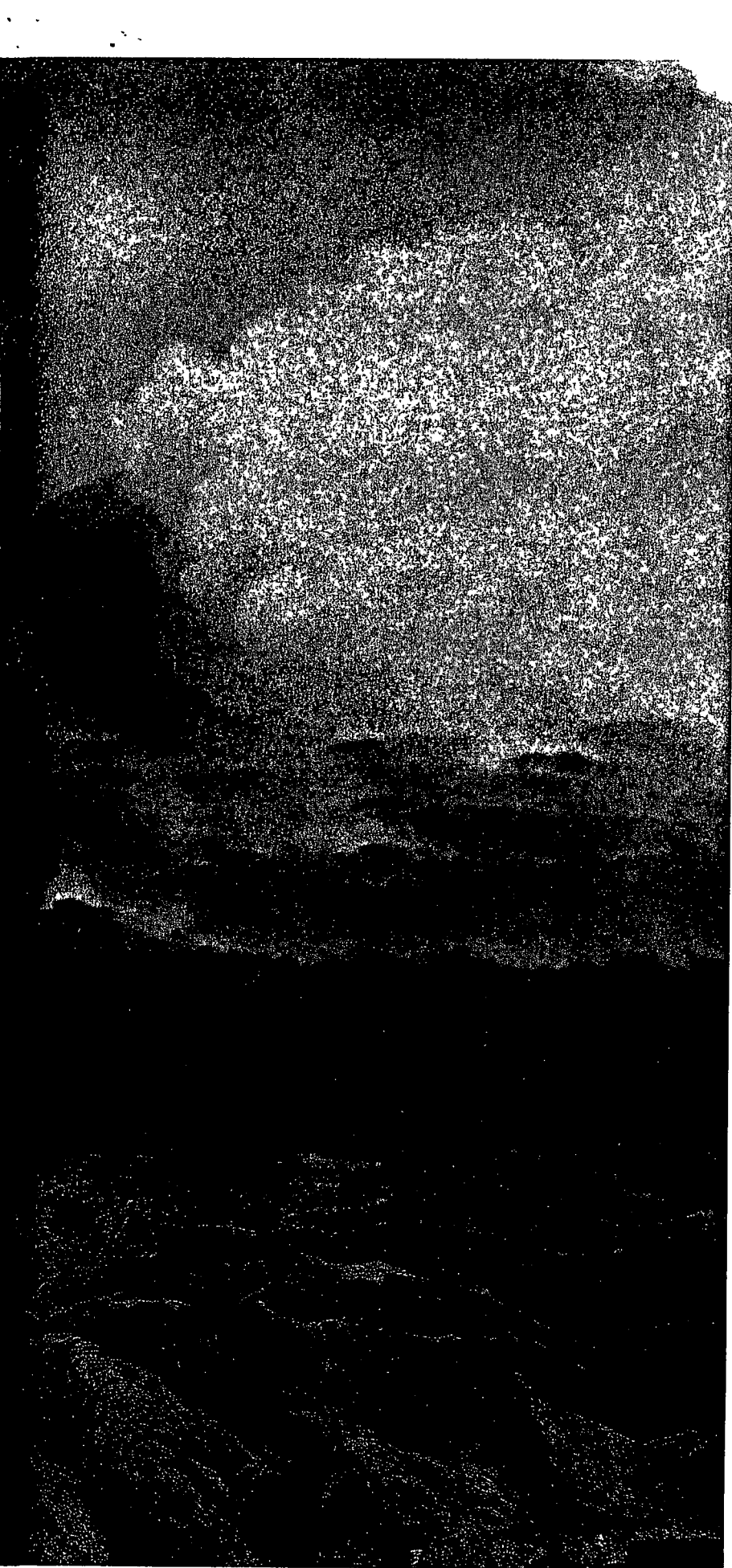
**At GTE, we have turned the power on. In the end, the success of our efforts depends on the people of GTE. In the next few pages, you will hear how some of them feel about the changes that are now sweeping through the corporation.**

**"I think the biggest change I have seen at GTE has been the thrust toward entrepreneurship. When I joined the Health Group, it was in the business-planning stage, but almost immediately we started to focus on getting out there in the real world and earning some revenue. And we went from nothing to backlog revenues of about \$82 million right now. What has been really great about it, is that we've developed a real team spirit by working lots of long hours for a common goal. It's been a real push-and-pull to get there, but it's been kind of neat to watch GTE change from just a telephone company.**

**"I know there are pockets of entrepreneurial folks springing up throughout GTE. When you take a course at our Management Development Center, it's not just the same old story in terms of our customer is only the telephone customer. You see a lot of people real excited about how different things are these days. There's new excitement in terms of getting into other lines of business, and those who are in the telephone company business are being challenged because nothing is for certain any more. I think that's good. I like the new GTE. There's no complacency."**

**Linda Munsell**





**“GTE people are becoming more aware of competition and the fact that what they do affects the company’s future. They talk about what needs to be done to come up with new products, or improve quality or become more efficient. We have a whole new awareness of these things, and especially that there are other companies out there competing for our customers. This awareness is really good, because it gives us a lot of eyes and ears out there. Our employees in the field are aware of new communications needs of our customers and bring in leads—so they are an extension of our sales force. We all know the customers are no longer captive, they have a choice.**

**“For me, the theme, The Power Is On, is a focus on employees. Our people are the ones who generate the power and turn it on and make it happen. There is no doubt about it—they are the key to our success. I especially like the power theme, because it’s right in line with a Hawaiian legend. It talks about a bowl of special energy that’s inside each of us. The energy we all dip into that makes us excel in anything we do. Whether that energy is flowing—meaning it’s being used—is totally up to the individual. Let us all open up that bowl and let the energy flow to achieve all that is possible.”**

**Alan K. Okinaka**

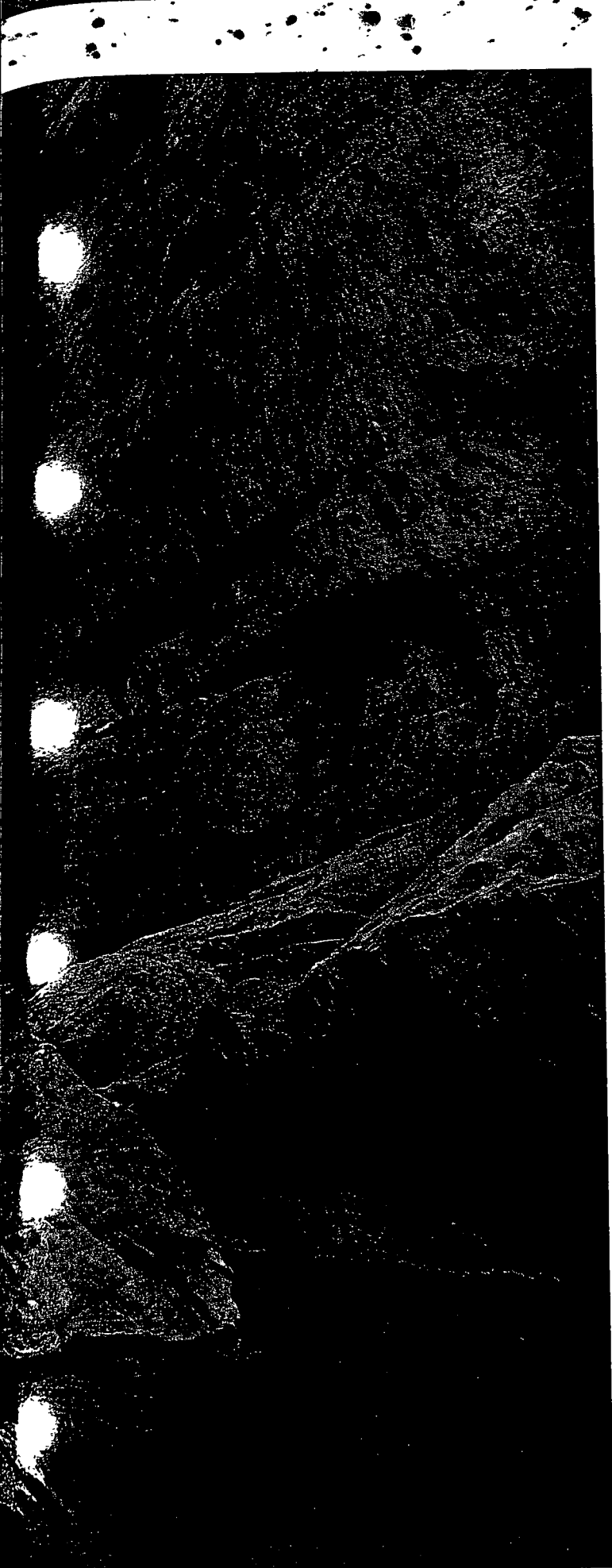
**"The changes we have seen at Waldoboro must be truly dramatic to those who have worked here a long while. We used to be simply a manufacturing operation. We didn't have any marketing or business functions here. Now we're a stand-alone business. Sales of our lighting coils to customers have gone up 40 percent in the past year. The majority of the growth has come from international customers, with product quality playing an important role in obtaining this new business.**

**"Today there is much more emphasis on excellence. We are going through a cultural change. It's not good enough to do it the way we've always done it. We have to be more proactive. It's a whole new ball game.**

**"I'll never forget the first time I read the company's Vision and Values statements. That, to me, was a turning point. Since then things are more focused. Everything seems to point in the direction of set goals and values. That was really an important step. I think that's what turned on the power. It gave people something to believe in and work toward. It let them know what was important."**

**Richard L. Chase**





**"When people ask me why GTE Directories is so successful, I say it's because we're never satisfied. We never like where we are, and we're willing to change to reach our goals. We accept change knowing that we are also accepting the challenge to be the best we can be. Now the whole of GTE is going through change.**

**"There's real power in change—it's a feeling you get when you know you control your destiny, a feeling that fuels you and gives you the strength to triumph. Without that feeling, you won't survive.**

**"When you look at a waterfall or a mountain, you may think, wow, what power! But you need to see through that external power to the power that's within. Because power in a corporation doesn't start externally. It's got to come from within the individual. I think that's something that all of GTE is realizing. And if employees feel that way all the way up the line, then that becomes the company culture. The feeling that we have the power to control our future must be ingrained, so that we can make the changes we need to make. We've got to grab hold of that power and win."**

**Cindy Johnson**



**"My experience with the way GTE is changing may be atypical, but then again, maybe it isn't. Here in the Northwest company we developed a network management and control system to sell to private communications networks. From the beginning we were successful in winning contracts in locations outside our franchise area, and we now have projects throughout the country and as far away as Puerto Rico. The service that we developed was really greater in scope than the Northwest company, which deserves a lot of credit for backing it. We went out on a limb, and the risk-taking paid off.**

**"I think the corporation's new theme, The Power Is On, is indicative of what's happening at GTE. The changes that we've made are the most dramatic in GTE's history. In my mind, there are two factors that will assure GTE's success in the future. One is the strategic plan for the reorganization of our telephone operations, which is called Winning Connection. This is a well-designed strategy that should guide us to success. The other factor is our human resources. Even more than on technology, our success depends on our people. They are our main asset. People are the foundation for the quality of service we deliver to our customer."**

**John F. Andrews**





## Review of Operations

Executing strategies formulated during 1988, GTE reorganized its telecommunications, lighting and precision materials businesses by restructuring its operations in January 1989.

The goals of the restructuring of GTE's operations are to improve overall efficiency, ensure greater responsiveness to customers' needs and capitalize on new business opportunities emerging in today's changing environment.

Highlights of the major groups and their 1988 programs are described in this Review of Operations.

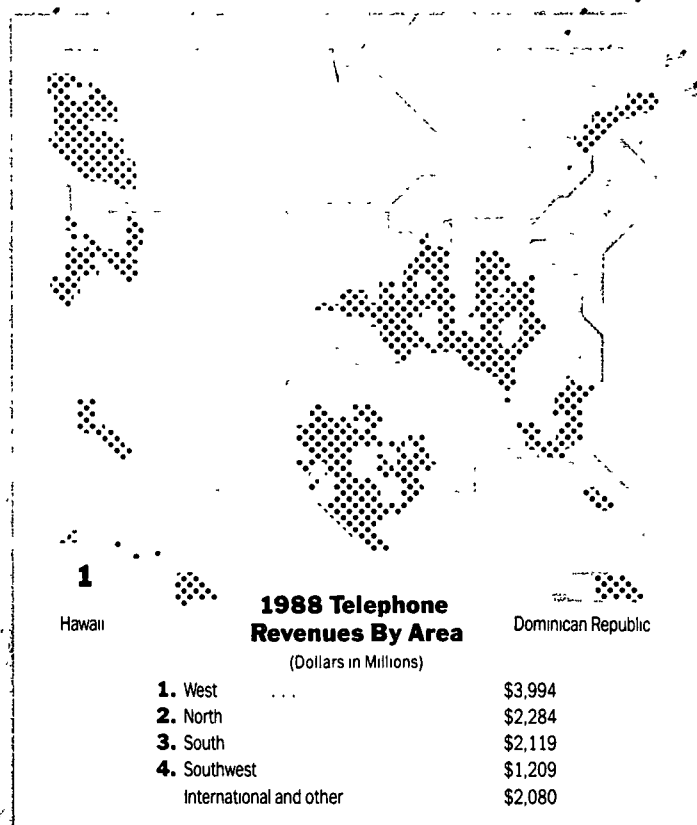
In 1988, GTE began consolidating its seven U.S. telephone companies into a single national organization with a centralized headquarters in the Dallas area and four regional operating areas based in Florida, Indiana, Texas and California.

This consolidation is designed to streamline the business and standardize operating systems, enabling the GTE telephone organization to respond to customers' needs more quickly, bring new products and services to the market earlier and achieve further reductions in operating costs. It also calls for staff reductions over the next few years.

These steps will play an important part in preparing GTE Telephone Operations to take advantage of the expanded growth opportunities that are emerging now and will continue to arise during the 1990s. GTE's goals are to maintain a leading position among telecommunications companies in revenue and net income growth, increase the use of its network and continue to increase its customer access lines during a period when sweeping changes are reshaping the U.S. telephone industry.

Attainment of these goals is essential to competing successfully with other companies that are moving quickly to reap the rewards offered by a changing telecommunications environment. This environment is marked by decreasing government regulation, increasing competition and rapid technological advances.

As part of its strategy, GTE is working to increase the use of its telecommunications network. Revenues from new network services are expected to increase by 25% a year for the next five years. Key to this strategy will be the introduction of new services and products to satisfy customers' rising demands for Information-Age communications.



Many of these new services will be made possible by "Signaling System 7" technology which will endow the network with greater intelligence and versatility than in the past. For example, the company is developing a series of enhanced service packages known as "CLASS" (Custom Local Area Signaling Services). These services will allow a customer to select which calls he wants to receive, route unwanted calls to a recorded announcement, automatically trace nuisance calls, identify "special" calls by a distinctive ring, automatically redial calls when a previously called business number becomes idle, and numerous other special features. These services are being market tested in selected GTE operating areas in 1989.

Looking further ahead, in 1988 GTE began constructing a coaxial cable network to serve 16,000 homes and 2,000 businesses as part of a large-scale futuristic test in Cerritos, California. The company also asked the Federal Communications Commission for permission to build a complementary optical fiber network serving about 1,000 homes in the city.

Installation of these new networks will allow GTE to compare the capabilities of coaxial cable, optical fiber and standard copper telephone wires for carrying voice, video and data communications. The company also will assess consumers' preferences for a variety of offerings that will include home shopping, banking, education, selection of films, and others provided by GTE's interactive video service, "Main Street," as well as

other types of cable television entertainment and security services.

GTE will use data obtained in its Cerritos test to develop advanced networks to serve the expanding needs of its customers in the future.

In 1988, GTE endorsed the FCC's proposal to eliminate the federal regulations prohibiting local telephone companies from providing video programming in their operating areas. The change would benefit the public, GTE believes, because it would allow phone companies to compete—and cooperate—with cable TV firms in bringing entertainment and interactive video services to consumers.

Planning for the more distant future, GTE also is testing Integrated Services Digital Network facilities in several of its operating territories. The ISDN environment of tomorrow is expected to make possible even more sophisticated voice, video and data communications services on a worldwide basis.

GTE continued to stress the improvement of quality in products, services and internal operations during the year. Monthly customer-opinion surveys revealed that the number of large businesses rating GTE as excellent or good rose by 12% in the last two years while the perceptions of medium-sized businesses rose by 11% over the same period.

Efforts to improve quality were significantly enhanced by GTE's "Partners in Quality" program conducted among the 50 firms that supply more than 80% of the company's annual \$1.6 billion in equipment purchases. Four vendors were honored in 1988 for the excellence of their products.

GTE's programs are not only raising quality levels but bringing down costs as well. To that end, the company is carrying out long-range plans to reduce costs even further. One result has been an improvement in the number of access lines per employee—a widely used measure of productivity. For GTE, this figure rose to 145.8 lines in 1988, a gain of 8.3% during the year. The various cost-control programs are expected to produce even larger gains over the next few years.

At the end of 1988, Telephone Operations—GTE's largest business—was serving 12.2 million customer-access lines in the U.S. and 2.2 million lines in British Columbia and parts of Quebec in Canada as well as in the Dominican Republic. The total of 14.4 million lines represents an increase of approximately 5% during the year.

GTE continued in 1988 to press federal and state regulatory agencies for more flexibility in setting prices appropriate for the telephone industry's increasingly competitive climate. At the federal level, GTE supports



**In the most far-reaching comparison of coaxial cable, optical fiber and standard telephone wires ever undertaken, GTE is testing numerous interactive TV services in Cerritos, California. Ken Sullivan is shown monitoring a "video on demand" system which will provide a choice of 30 channels.**

the FCC's inquiry into "price cap" regulation, which would place ceilings on interstate calling services as a replacement for the federal agency's historic rate-of-return regulation.

To capitalize on its strengths and continue to succeed in a more competitive marketplace, GTE Government Systems reorganized its various operating divisions into three sectors in 1988.

Each sector—Tactical Systems; Electronic Defense; and Command, Control and Communications Systems—consists of several units, which share central technical and management resources that can serve related communities of customers. The result is more effective use of resources and greater sensitivity to the market. In addition, the company continues to take advantage of other strengths, which include detailed knowledge of customers' specialized requirements, competence in a broad range of technologies and an earned reputation for meeting its commitments on time and within budget.

In late 1988, GTE Government Systems was awarded a \$948 million contract to continue work on an advanced mobile communications system that will enable U.S.



**Throughout GTE Telephone Operations, local services continue to expand to meet customer demand. At a new corporate park in the Tampa Bay area, James Larson (left) and John Bergin, GTE Florida, install a high-quality fiber optic network for business customers.**

Army units to communicate to and from virtually anywhere in the world.

The award covers GTE's work on the third phase of the program and brings the amount awarded so far to \$2.27 billion of the total \$4.3 billion that GTE expects to receive by 1993. The company is providing more than 1,400 switching centers, 8,000 mobile radios and 25,000 telephones for the system.

The company won a \$51.3 million initial-production contract to supply from two to twelve telephone switching systems providing "secure" communications for the U.S. Department of Defense at military command centers around the world. If the government exercises additional options, which have a value of \$1.8 billion over 20 years, GTE eventually may supply as many as 300 systems.

The U.S. Navy awarded GTE a \$62 million contract to supply 139 radio receivers that will be installed on submarines as part of the Navy's Extremely Low Frequency communications system. The receivers will allow submarines to maintain communications with commands ashore while cruising at greater depths and speeds.

GTE received supplemental contracts totaling \$38.3 million to provide engineering services and equipment

for the launch control facilities of the U.S. Air Force's Peacekeeper intercontinental ballistic missile system. The company has received awards totaling more than \$500 million since beginning work on the program.

GTE Information Services, with headquarters in Tampa, Florida, was established in 1988 to make GTE a strong national participant in several high-growth sectors of the burgeoning information services market.

To meet the stiff competition in these emerging markets, GTE Information Services is capitalizing on GTE's strengths in marketing telephone directories, directory advertising and related services, in operating communications networks, managing computer centers and database systems, and processing high volumes of business transactions.

The largest unit within GTE Information Services is GTE Directories, which publishes more than 1,000 telephone books and sells Yellow Pages advertising in the U.S. and abroad.

In 1988, GTE Directories signed a five-year agreement to sell Yellow Pages advertising for eight telephone directories published by Rochester Telephone Corporation for customers in New York State and Pennsylvania.

As part of a new and broader business strategy, GTE Directories set up a new division, GTE Market Resources, to offer businesses a variety of advertising, marketing and sales services through its "telemarketing" center in Irving, Texas.

GTE Information Services also markets computer-based services to customers in several industries. In 1988, GTE won a five-year contract worth more than \$50 million from Blue Cross and Blue Shield of Florida to process certain types of Medicare claims. The company also won a five-year, \$15.5 million contract to process Medicaid claims for the state of Missouri.

During the year, GTE Information Services acquired five companies expected to contribute to its efforts to become a leading national provider of information-management and telecommunications services to the health care and education industries, among others.

GTE TeleMessenger offers voice-messaging services on a nationwide basis. In 1988, it introduced its GTEXT™ interactive voice-response system, which enables users to "converse" with computers from ordinary telephones.

GTE Mobile Communications was formed in 1988 to serve the fast-growing market created by an increasingly mobile population. The new organization, based in Houston, consists of GTE Mobilnet, GTE Cellular Com-



**Dominick Zaccaro (left) and Steve Sullivan, GTE Airfone, install the company's Seatphone™ system in the back of an airliner's seats. Because the phones are easily accessible, passenger usage of the in-flight telephone service is expected to increase.**

munications, GTE Airfone and the GTE radio-paging operations.

By bringing these businesses together, GTE will keep abreast of the broad range of available products and services and bring new technologies to customers more quickly. The company markets an extensive selection of high-quality communications offerings on a nationwide basis to customers in cars, airplanes and trains.

GTE Mobilnet, which markets cellular mobile telephone service to consumers for use in motor vehicles and while walking, increased its customers to 127,000 from 66,000 and raised the number of metropolitan areas it serves to 34 from 29 in 1988. The company also boosted its "cell sites" to 227 from 183 to increase its call-handling capacity and expand its areas of coverage.

GTE Mobilnet introduced "Follow Me Roaming<sup>SM</sup>" service, which allows customers to use their cellular phones more easily when traveling to distant cities. This service is seen as the first step toward reaching the cellular industry's goal of a nationwide network.

GTE Cellular Communications, acquired by GTE Mobilnet in 1986, markets cellular telephones and serv-

ices and develops advanced cellular products.

GTE Airfone, which provides air-to-ground telephone service for passengers on commercial airlines, introduced its Seatphone™ system in 1988 and by year's end had placed it on 70 airplanes operated by three airlines. Seatphone handsets are installed at passengers' seats and thus offer an accessibility that is expected to increase their use. GTE's Airfone® service instruments, which are mounted on the walls in central locations on the planes, had been placed on more than 900 aircraft operated by 16 airlines by the end of 1988, an increase of about 400 during the year. The company's goal is to equip virtually all of the 2,900 commercial aircraft in the U.S. within the next few years.

Capitalizing on its capabilities in technological innovation and marketing, GTE Spacenet continued to expand its role as a leading provider of satellite-based communications networks and services to business, the news media and government in 1988.

The company provides a variety of data, video and voice telecommunications services over its five orbiting satellites for customers requiring reliable, readily available connections to many dispersed locations.

In 1988, GTE Spacenet received contracts for network services from more than 50 companies. Most notable was a contract from First Union Corporation of Charlotte, North Carolina, to provide a data and video communications network linking the bank's 723 branches throughout five southeastern states.

GTE Spacenet also was selected by Dow Jones & Company to transmit the contents of *The Wall Street Journal* from the publishing firm's facility in Princeton, New Jersey, over GTE's SPACENET III satellite to remote printing plants across the U.S.

GTE Spacenet's International Systems Division won a contract in 1988 to install an earth station at the Washington, D.C., headquarters of the International Telecommunications Satellite Organization—INTELSAT. At the 1988 Olympic Summer Games held in Seoul, Korea, more than 75% of the "uplinking" of television coverage transmitted around the world by INTELSAT satellite was done with GTE-supplied earth stations.

GTE Electrical Products made significant progress in 1988 in its primary strategy: establishing "Total Quality" as a way of life for all employees of its Lighting and Precision Materials businesses. The strategy seeks to achieve and maintain a position for GTE as the world leader in quality, technology and profitability in its served markets.

At year's end, quality awareness training had been given to 17,000 of the 29,000 Electrical Products employees around the world. In addition, a Total Quality manual, issued in eight languages, has been distributed to all employees to help managers instill a teamwork approach to quality in every job. More than 500 teams have been set up to devise solutions to quality-related issues.

International Lighting, GTE's largest lighting business, manufactures in 13 countries and sells its products in more than 40. Operations in Europe, Canada, Latin America and the Far East contributed significantly to the division's 1988 success.

The European organization is a leader in developing advanced lighting products. One, for example, is the new Tru-Aim® Professional lamp, which uses energy-saving tungsten-halogen technology to produce a beam of bright, uniform light suitable for many uses in stores, restaurants and offices. The new lamp, developed at the GTE Sylvania plant in Erlangen, West Germany, and introduced to the market in 1987, was enhanced in 1988 by fixtures produced for it by other GTE companies in Europe.

Another innovative product is the small, U-shaped fluorescent light also developed by GTE Sylvania in Erlangen for the full-color video sports scoreboard marketed worldwide by Omega Electronics of Switzerland. The new scoreboard was introduced into the U.S. with installations in two sports arenas in 1988.

GTE continued to lead its competitors in supplying halogen headlamps to the U.S. automotive industry in 1988. GTE and LESCOA, which makes turn signals and sidemarkers for autos, have been selected by one of the largest U.S. automakers as joint suppliers of the entire front-lighting module for its popular minivan starting in model-year 1991.

During the year, U.S. Lighting continued to expand its line of energy-saving lighting products which offer significant savings to large commercial and industrial customers as electric-power costs continue to climb and constraints on the nation's electric energy supply become more severe. GTE's energy-saving lamps can be sold at premium prices because they provide greater value to end users.

Record sales and net income in 1988 were primarily the result of actions taken by GTE Precision Materials to improve productivity and increase its share of foreign markets.



**Phosphor, manufactured at GTE Precision Materials' plant in Towanda, Pennsylvania, is prepared for final drying by Stephen E. Radney before being shipped to a customer. The group is a leading supplier of phosphors for television picture tube manufacturers.**

Productivity levels were enhanced by selling three small businesses that did not fit into the company's long-range strategic plans, by eliminating excess manufacturing capacity, and by increasing the use of computer-aided design and manufacturing techniques.

Sales to international markets grew to some 25% of the total in 1988, due largely to the company's broad product line, its 17 foreign plants and its marketing programs in more than 50 countries. In addition, the Valenite division was reorganized into four geographical units to service customers' needs better in major multinational regions around the world.

Among the promising new products is the Maxibreaker™, a circuit-breaker for electrical systems in autos. The device operates reliably under high temperatures and, consequently, can be installed inside the engine compartment to save space in the passenger compartment and reduce the amount of wiring required.

GTE Precision Materials brought out new products to meet the needs of the expanding fiber-optics market in 1988. They included several new splices and splice-kits for connecting the thin glass fibers as well as a system for restoring optical-fiber communications links to service during emergencies.

The company reported strong sales of its growing family of network-interface devices especially those accommodating numerous pairs of telephone lines entering apartment houses and commercial buildings.

GTE Precision Materials is opening up market opportunities with its development of new materials. For example, tougher carbide machine tools produced from an improved tungsten carbide powder developed by GTE are replacing tools made from high-speed steels.

Following an agreement reached in 1988, GTE and AT&T in January 1989 established a joint-venture company that includes the network-switching business of GTE Communication Systems. The new company, AG Communication Systems Corporation, will obtain licenses from AT&T to use some of its technologies, including those pertaining to its 5ESS® switching system. Initially, GTE holds a 51% interest in the venture, with AT&T assuming 80% ownership after five years and 100% after 15 years.

The joint venture will develop new, advanced capabilities for the GTD-5 EAX™ family of digital-switching systems. A significant aspect of the agreement calls for the integration of GTE's technologies with those being developed by AT&T for its 5ESS® switch to assure the smooth evolution of the GTD-5 into the Integrated Services Digital Network of the future. The new company will market the GTD-5 as well as the 5ESS to GTD-5 customers.

GTE, which had held a 50% ownership of US Sprint Communications Company since mid-1986, agreed in 1988 to sell a 30.1% interest to its partner, United Telecommunications, Inc. Upon completion of the transaction early in 1989, GTE became a limited partner. United Telecommunications has the option to purchase GTE's 19.9% at book value at any time before the end of 1995. GTE also has an option to sell its remaining interest to United between December 31, 1991 and December 31, 1995.

GTE also holds a 20% interest in a joint venture formed with Siemens AG of West Germany in 1986 to market transmission products in the U.S. and abroad, as well as network-switching systems and business-communications systems outside the U.S.

In 1988, Fujitsu America, Inc. acquired the 20% interest which GTE Communication Systems had held in Fujitsu GTE Business Systems, Inc., a joint-venture company that markets voice and data communications systems to business customers in North America.



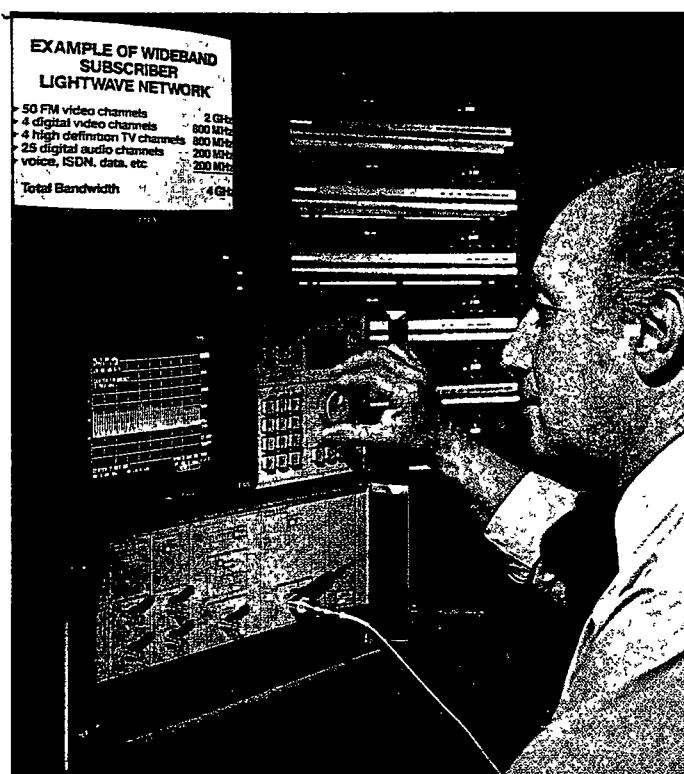
**David DelloRusso (left) and Paul Nordquist, GTE Government Systems, inspect equipment that is part of an advanced mobile communications system being produced for the U.S. Army. GTE expects to receive a total of \$4.3 billion for the project by 1993.**

GTE spent more than \$297 million in 1988 on a broad spectrum of company-sponsored research and development programs conducted by 2,326 professional scientists and engineers throughout the corporation. The focal point of GTE's R&D programs is the corporate research subsidiary, GTE Laboratories, at Waltham, Massachusetts. Its programs are complemented by the work of some three dozen smaller laboratories at various GTE business units in the U.S. and abroad.

GTE's commitment to R&D is based on the conviction that early application of new technologies is essential to the long-term success of its telecommunications, lighting and precision materials businesses.

Significant advances were made in numerous R&D programs at GTE Labs during the year. A few are described briefly below:

A GTE Labs-developed laser set a new world "speed" record by turning on and off 22 billion times a second—fast enough to transmit all the information in a



**Vincent Lanzisera, GTE Laboratories, demonstrates on the monitor the transmission of a record 60 broadcast-quality video channels. The development represents a cost-efficient approach to bringing optical fiber-based services to the home.**

stack of books 20 stories high every second. Pinhead-size diode lasers such as this emit streams of light pulses carrying voice, video and data signals through the thin strands of glass known as optical fibers. Engineers at GTE Labs are developing a switching system to provide advanced video services to consumers over optical fiber networks. The switch will be tested in 1990 in Cerritos, California.

Researchers at GTE Labs continued to develop "expert systems" based on sophisticated software programs that enable computers to perform in "intelligent" ways. One system, "COMPASS," being used at some 50 GTE telephone switching centers, contains a maintenance specialist's expertise.

Increased assistance to education highlighted the wide-ranging corporate contributions program in 1988 administered by the GTE Foundation, the company's philanthropic arm.

In a bold and innovative step, GTE and the National PTA formed a partnership to develop a comprehensive educational program to fight the rising abuse of drugs

and alcohol among school children, especially those aged 9 to 14. GTE is providing about \$1 million to fund the creation of a program scheduled for introduction on a nationwide basis in 1990. The program will involve schools, parents, communities and volunteers from GTE units throughout the U.S.

In 1988, GTE awarded 15 grants totaling \$450,000 to colleges for developing programs to recruit and retain qualified students from minority groups in mathematics and scientific disciplines at the undergraduate level. GTE has awarded more than \$2.2 million since the program was established in 1982.

GTE underwrote "DISCOVER: THE WORLD OF SCIENCE" for the third consecutive year in 1988-89 and will continue its sponsorship for the 1989-90 and 1990-91 seasons. The DISCOVER series consists of five one-hour programs broadcast monthly from October to February over Public Broadcasting System television stations across the country. Some 50,000 teachers use the program's free teaching materials in their classrooms each year.

GTE awarded a \$140,000 grant to the Literacy Volunteers of America in 1988 to fund the creation of a video version of the organization's "English as a Second Language" workshop for training the volunteers who tutor adults in reading and writing English. The gift was the largest in the LVA's 25-year history.

GTE continues to provide opportunities for women and members of minority groups to advance in their careers. In 1988, women made up 43% of the company's total population and minority-group members accounted for 18%.

The number of women in management and professional positions rose during the year to 22% and 30%, respectively, while minorities held 10% of the managerial and 13% of the professional jobs.

The company expanded its programs to recruit outstanding minority-group college students for management positions in GTE units in the U.S. and abroad. For example, GTE's Summer Intern Program, which hires college students for professional positions each summer, has significant minority representation. More than half the minority interns are offered permanent positions with GTE after graduation.

In its college relations programs, GTE continues to work with such groups as the National Action Council for Minorities in Engineering, the American Indian Science Engineering Society, the Society of Hispanic Professional Engineers and the National Society of Black Engineers.



## **Financial Highlights**

*Consolidated revenues and sales reached a record \$16.5 billion.*

*Net income increased to a record-high \$1.2 billion, with earnings per share of \$3.58.*

*GTE's dividend was increased for the 34th time in 35 years.*



## Financial Review

GTE's primary financial objective is to maximize shareholders' long-term total return, as measured by share price appreciation and cumulative dividends, including reinvestment. Using the Standard & Poor's Composite Index ("S&P 500") as a benchmark, GTE has been consistently successful in the accomplishment of this objective, exceeding the five-year total return earned by the S&P 500 for five of the six periods ending from 1983 to 1988.

GTE's total annualized return over the five years ended December 31, 1988 was 16.4%, 1.2 percentage points greater than the return earned by the S&P 500. This favorable comparison was in large part a result of GTE's stock price appreciating 26% in 1988, double that achieved by the S&P 500. The stock price increase contributed approximately \$3 billion to shareholder value.

The significant share price appreciation is a reflection of the actions taken during 1988 to position the company for future earnings growth, as companies in the telecommunications services industry generally did not achieve comparable returns. In fact, GTE's one-year total return of 34% was 16 percentage points greater than the average of the regional Bell holding companies.

GTE's consolidated return on common equity improved during 1988, reaching 14.8%, primarily as a result of lower losses incurred by US Sprint. The sale by GTE of a 30.1% interest in US Sprint, effective January 1989, will enhance GTE's return on common equity in the future as US Sprint's operating results will no longer impact GTE's earnings and the proceeds are redeployed.

The improvement in GTE's consolidated return on common equity was achieved despite a decline in the return earned by Telephone Operations. Generally, as a result of declining interest rates, telephone companies, including GTE's, have been under regulatory pressure to reduce returns. Telephone Operations, however, continued to earn a return among the best in the industry.

GTE is committed to safeguarding the interests of debtholders. This is evidenced by GTE's actions which led to, and helped maintain, the "A" rating of the Parent Company senior debt and the numerous upgrades received by subsidiaries over the past five years. Currently, the senior debt of six of GTE's seven domestic telephone subsidiaries is rated in the "AA" category by one or more of the major rating agencies.

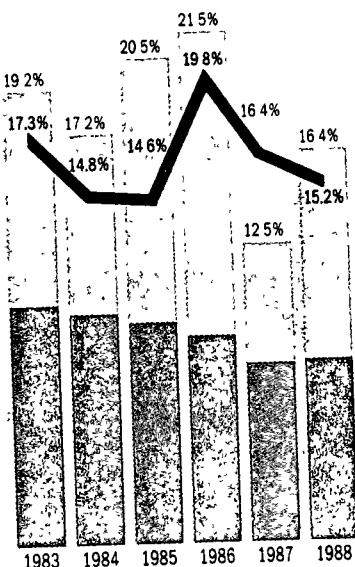
The strong debt ratings provide shareholders the benefits of financial leverage while ensuring access to long-term capital at reasonable cost during all phases of the interest rate cycle. Because of GTE's reduced business risk, as a result of the US Sprint transaction with United Telecommunications and the formation of the joint venture with AT&T, the current Parent Company "A" rating can be maintained at the company's current capital structure. Accordingly, GTE embarked upon a program to repurchase 25 million shares of common stock over the 1988-1990 time period, funded in part by the proceeds from the two above-mentioned transactions and the company's existing share issuance plans.

Capital requirements, including working capital and GTE's share of US Sprint's capital needs, totaled \$3.9 billion in 1988, down 6% as compared to 1987, primarily due to lower spending by US Sprint on its fiber-optic network and the implementation of a new accounting requirement by GTE's

### Five Year Return to Shareholders\*

- GTE Price Appreciation
- GTE Dividend Return
- S&P 500

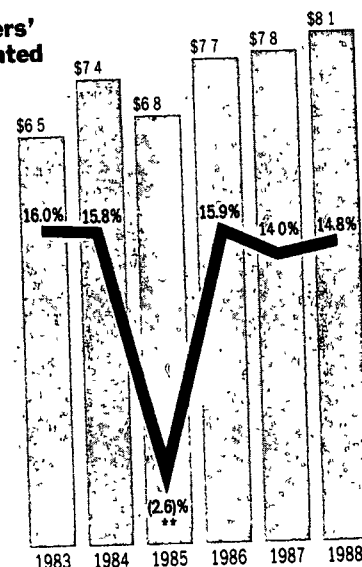
\*Represents common share price appreciation and cumulative dividends, including reinvestment, over a 5 year period



### Common Shareholders' Equity and Consolidated Return on Equity\*

- Common Equity at End of Year (In Billions of Dollars)
- Percent Return

\*Based on continuing operations  
 \*\*Includes the effect of a \$1.3 billion business repositioning charge. Excluding this charge, return on equity would have been 14.2%



regulated operations. The new requirement mandates the expensing of previously capitalizable construction and software expenditures. The majority of the new capital investment was in regulated telephone operations to meet the demands of growth, modernize facilities and position GTE as a low-cost provider of high-quality telecommunications products and services.

Total funds from internal sources, including depreciation, were \$4 billion in 1988 which, after dividends of \$903 million, satisfied 79% of GTE's capital requirements. Net external requirements were \$816 million. GTE relied mainly upon short and long-term debt to satisfy this requirement, as well as to redeem maturing issues, refinance high-cost debt and provide funds for the share repurchase program. The short-term debt level was permitted temporarily to rise to higher than normal levels in anticipation of receiving the proceeds from the US Sprint transaction and the formation of the joint venture with AT&T. The transactions closed on January 3, 1989, and GTE received in total \$697 million.

GTE's 1989 capital expenditures, primarily for continued investment in Telephone Operations' modernization program and facilities for growth, are expected to be slightly less than in 1988. GTE's US Sprint funding requirement will be substantially diminished as a result of the completion of US Sprint's fiber-optic network and the reduction in GTE's ownership percentage. GTE currently projects that cash flow, including the proceeds of the US Sprint transaction and receipt of funds from AT&T pursuant to the formation of the joint venture, will essentially equal capital requirements. Nevertheless, 1989 will be an active financing year as funds will be needed to reduce short-term debt, refinance maturing and high-cost debt and to fund the ongoing share repurchase program. As of December 31, 1988, \$1.8 billion of unused bank lines of credit was available.

As a result of the Tax Reform Act of 1986 which eliminated the preferential tax treatment of capital gains, GTE decided to increase the proportion of shareholders' total return that is received in the form of dividends. Accordingly, GTE adopted a policy, supported by the company's strong capital structure and cash flow, of targeting its dividend-payout ratio at the upper end of the range for companies in similar businesses.

In August 1988, in light of the positive earnings and cash flow outlook, stemming in part from the US Sprint sale, the dividend was increased 6.3% to an annual rate of \$2.68 per common share. This was the 34th increase over the past 35 years.

## Results of Operations

GTE achieved excellent earnings in 1988. Consolidated net income rose 9% to a record-high \$1.2 billion and earnings per share increased to \$3.58 from the \$3.29 reported in 1987. Consolidated revenues and sales also reached a record \$16.5 billion, 7% higher than 1987.

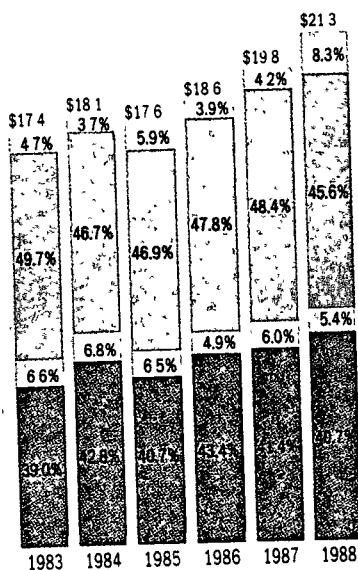
These record results were achieved while the company was implementing several strategic programs to strengthen its competitive operating position and further enhance future earnings growth. These actions included reducing its ownership interests in US Sprint and in our network-switching business, divesting certain other businesses not earning an adequate return as well as commencing the restructuring of our telephone operations to be more cost effective and responsive to customer needs.

In July 1988, GTE agreed to sell a 30.1% interest in US Sprint to a subsidiary of United Telecommunications, Inc. ("United") for approximate book value as of December 31,

### Consolidated Capitalization

(In Billions of Dollars)

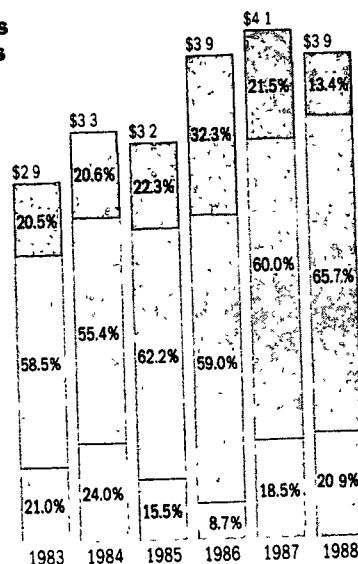
- Short-Term Debt
- Long-Term Debt
- Preferred Stock
- Common Stock



### Capital Requirements and Sources of Funds

(In Billions of Dollars)

- Earnings and Other Internal Sources
- After Dividends
- Depreciation
- External Sources



1988. Under the agreement, United may purchase GTE's remaining 19.9% interest before the end of 1995. GTE also has the option of requiring United to purchase its interest at any time between December 31, 1991 and December 31, 1995 at the then current book value. Since GTE's participation in US Sprint was significantly reduced, it changed from the equity to the cost method of accounting for this investment commencing with the third quarter of 1988. Under the cost method, US Sprint's operating results are no longer reflected in GTE's financial statements.

At the same time, GTE and AT&T agreed to form a joint venture to bring new Integrated Services Digital Network and other advanced technology features to GTE's digital telephone switching systems. The new company, known as AG Communication Systems Corporation, is 51% owned by GTE. AT&T will eventually assume 100% ownership of the new company.

The US Sprint and AT&T transactions were both consummated in January 1989.

During 1988, GTE also commenced a reorganization and consolidation of its telephone operations. This streamlining, which will be fully implemented by year-end 1993, is projected to result in significant cost savings as GTE consolidates its seven U.S. telephone operating companies into a single national group with service operations in four geographic areas headquartered in Florida, Indiana, California and Texas. A general headquarters office located in Irving, Texas consolidates certain services and functions previously performed by the separate operating companies and the previous group headquarters.

Considering these important strategic actions, GTE realigned its businesses into three business segments. The first segment, Telephone Operations, consists of GTE's domestic and foreign telephone operating companies and

their supporting supply and data services operations. The second segment, Telecommunications Products and Services, includes GTE Mobile Communications and GTE Information Services as well as GTE Spacenet, GTE Communication Systems and GTE Government Systems. GTE Mobile Communications includes both GTE Mobilnet and GTE Airfone. GTE Information Services includes GTE Directories, GTE Telecom, GTE TeleMessenger as well as other information services businesses in the health care, education, retail and financial services industries. Electrical Products, the third segment, continues as previously reported and includes GTE's Lighting and Precision Materials businesses. The following sections discuss these business group operations in more detail. All prior year financial data have been reclassified for comparability to reflect the new reporting format.

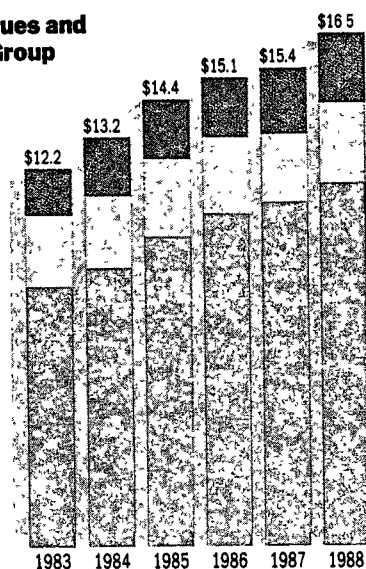
GTE's domestic telephone companies provide a wide variety of communications services, ranging from local telephone service for the home or office to highly complex voice and data services for industry and national defense. These companies serve 12.2 million access lines in 31 states. In addition, GTE owns or has voting control of two telephone companies in Canada and one in the Dominican Republic, which serve an additional 2.2 million access lines.

Revenues from Telephone Operations increased 5% in 1988 to \$11.7 billion. Access charges and intrastate toll calling revenues grew 6% to \$5.8 billion and reflect the continued growth in usage of local exchange networks for long-distance calling. Local revenues of \$3.5 billion, however, decreased slightly despite a 5% increase in the number of access lines in service. This decrease reflects the impact of rate orders received in 1988 primarily from the California Public Utility Commission as well as the effects of the continued deregulation of equipment sales and services. The California rate orders reduced local telephone revenues by approximately

### Consolidated Revenues and Sales by Business Group

(In Billions of Dollars)

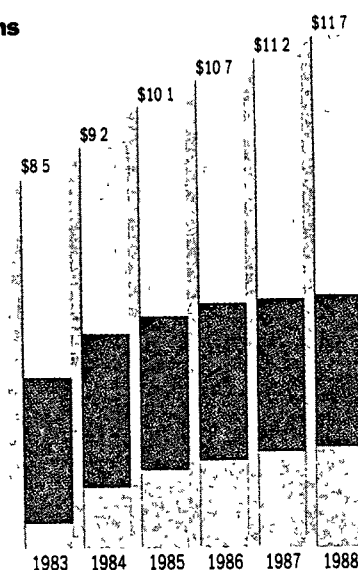
- Electrical Products
- ▨ Telecommunications Products and Services
- ▤ Telephone Operations



### Telephone Operations Revenues

(In Billions of Dollars)

- ▨ Toll/Access
- Local
- ▤ Other



\$180 million in 1988 and \$331 million on an annualized basis. Other telephone revenues, which relate primarily to nonregulated services of GTE's telephone operations totaled \$2.3 billion, a 10% improvement over 1987, reflecting both business growth and the previously mentioned deregulation of various services in certain jurisdictions.

While net income for Telephone Operations was 2% higher than 1987, income before other deductions and income taxes declined 6% to \$2.7 billion. This decrease reflects the net effect of positive growth in access lines, network usage and productivity gains, which were offset by increased expenses associated with an accounting change mandated by the Federal Communications Commission. This change, which was effective in 1988, required the expensing of certain indirect construction and software costs that were capitalized under the previous accounting method. The decrease also reflects the impact of rate reductions, particularly in California, as well as a provision for the previously announced reorganization of Telephone Operations. Net income increased, however, primarily due to benefits of the lower federal income tax rate.

Productivity remains a major objective for Telephone Operations. At year-end 1988, approximately 64% of the access lines serviced by the GTE telephone companies were connected to digital switches compared to only 6% in 1983. Although access lines increased by approximately 5% in 1988, these lines were serviced by 3% fewer employees. As a result, productivity as measured by access lines per employee improved 8%. At year-end, this measure showed 146 lines in service per employee, 33% higher than the same measure only five years ago. We expect this trend to continue.

GTE's telephone companies continue to seek opportunities to improve recovery rates for their investments in telephone plant. Although gross investment increased at a

healthy 6% annual rate during the 1983-1988 period, almost one-third of GTE's investment in telephone plant had been recovered through depreciation by the end of 1988 compared with only 26% in 1983.

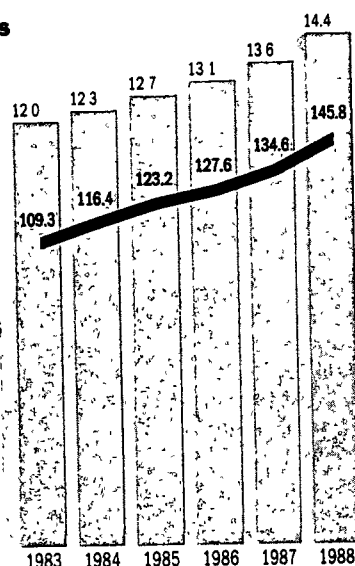
In 1987, telephone revenues increased 4% to \$11.2 billion. Telephone income before other deductions and income taxes, however, decreased 2% to \$2.9 billion. This decrease reflected the telephone companies' efforts to use the benefits of lower income tax rates and lower pension costs in 1987 to offset increased capital recovery and other cost increases. As a result, although operating income was lower, telephone operations' 1987 net income was 4% higher than the previous year.

GTE Telecommunications Products and Services develops and markets a wide range of telecommunications systems and services through its information services, mobile communications, satellite, government systems and communication systems operations. GTE Directories, one of the largest units in the Information Services group, publishes more than 1,000 telephone books and sells Yellow Pages advertising in nine languages in the United States and abroad. Another unit, GTE Mobilnet, markets cellular mobile telephone services. This unit became profitable in 1988 as it increased its customers to 127,000 from 66,000 and raised the number of metropolitan areas it serves to 34 from 29.

Revenues and sales from Telecommunications Products and Services rose 18% in 1988 to \$2.6 billion from \$2.2 billion in 1987. This high rate of growth reflects higher sales at all units within the group, particularly directory services, mobile-telephone services and government systems. The increase in directory revenues also included the one-time favorable impact of a change in accounting to record directory advertising revenue upon publication rather than over the life of the directory. Excluding this accounting change, revenues for the group showed a 10% increase.

### Telephone Operations Access Lines

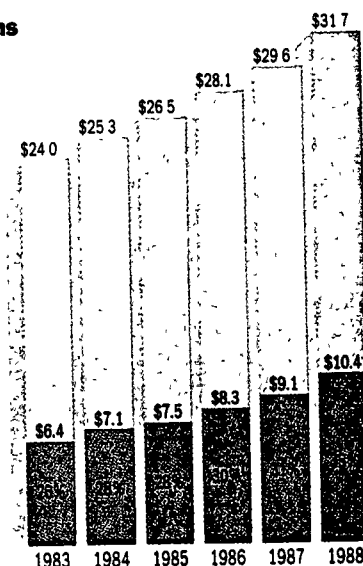
■ Lines in Service  
(In Millions)  
■ Lines Per Employee



### Telephone Operations Capital Investment and Recovery

(In Billions of Dollars)

■ Gross Investment in Plant  
■ Depreciation Reserve



Income before other deductions and income taxes more than doubled in 1988, increasing to \$106 million from the \$52 million earned last year. This sharp improvement reflects the higher sales as well as improved margins.

In 1987, revenues and sales of Telecommunications Products and Services of \$2.2 billion were 13% lower than 1986 primarily due to the transfer of businesses to joint ventures. On a comparable basis, 1987 sales were 10% higher than 1986. Income before other deductions and income taxes decreased to \$52 million from the \$126 million earned in 1986 reflecting lower sales of the higher-margin, network-switching products as well as development costs incurred in connection with the expansion of the mobile-communications business.

GTE Electrical Products is a leading worldwide manufacturer of lighting products for residential, commercial and industrial use. The group also manufactures and markets precision materials and custom engineered parts, components and materials for a broad range of industries.

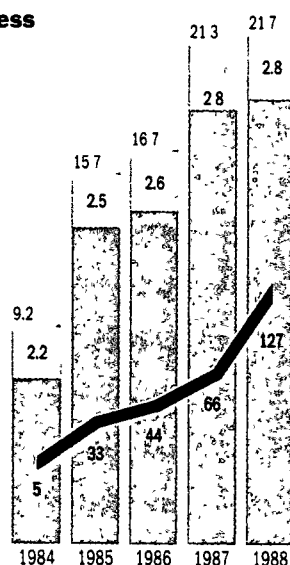
Sales increased 5% to \$2.2 billion in 1988, compared with \$2.1 billion in 1987. Income before other deductions and income taxes increased to \$228 million, compared with \$222 million in 1987. The profit increase reflects improved results from shipments of precision materials and international lighting products, which were offset by lower margins on certain domestic lighting products.

In 1987 Electrical Products' sales increased 11% to \$2.1 billion reflecting higher shipments of lighting products and precision materials and the favorable translation effects of generally stronger foreign currencies. Income before other deductions also increased but at a much higher 24% rate to \$222 million, reflecting the higher sales and lower pension costs which were partially offset by lower margins on certain lighting products.

### Mobilnet's Cellular Business Adjusted Population \*

(In Millions)

- Minority owned
- Majority-owned
- Subscribers (In Thousands)



\* Total population served  
times GTE's percentage  
interest in the market

Consolidated							Annual Growth Rate +
	1988	1987	1986	1985	1984	1983	(1983-1988)
Continuing Operations <sup>(a)</sup>							(Millions of Dollars)
<b>Results of Operations</b>							
Revenues and sales <sup>(b)</sup>	\$ 16,460	\$ 15,421	\$ 15,112	\$ 14,372	\$ 13,248	\$ 12,237	6.1%
Income before other deductions and income taxes	3,052	3,153	3,238	3,201	2,835	2,501	4.1
Income from continuing operations (applicable to common stock)	1,177	1,082	1,153	(198)	1,046	949	4.4
Per share	3.58	3.29	3.53	(.63)	3.55	3.41	1.0
Net income (applicable to common stock)	1,177	1,082	1,153	(198)	1,092	926	4.9
Per share	3.58	3.29	3.53	(.63)	3.70	3.33	1.5
Dividends declared per common share	2.60	2.48	2.20	2.08	2.03	1.97	5.7
Depreciation	2,559	2,474	2,305	2,016	1,847	1,717	8.3
Research and development	297	251	291	296	254	247	3.8
<b>Assets and Capital</b>							
Plant additions	3,288	3,349	3,419	3,354	3,076	2,896	2.6
Average investment	20,291	19,083	18,194	18,291	17,792	16,862	3.8
Long-term debt and redeemable preferred stock	10,007	9,901	9,239	8,862	9,082	9,340	1.4
Identifiable assets	31,104	28,745	27,402	25,965	25,741	23,856	5.4
Shareholders' equity	9,493	9,084	8,618	7,739	8,298	7,231	5.6
<b>Ratios and Other Information</b>							
Return on equity	14.8%	14.0%	15.9%	(2.6)%	15.8%	16.0%	—
Return on investment	9.9%	9.4%	9.8%	2.4%	9.9%	9.6%	—
Employees (in thousands)	159	161	161	175	178	179	(2.3)
<b>Foreign Operations (included above)</b>							
Revenues and sales	\$ 2,414	\$ 2,052	\$ 2,135	\$ 2,043	\$ 1,937	\$ 1,891	5.0%
Net income	125	98	101	101	51	36	28.3
Identifiable assets	4,067	3,522	3,214	3,346	3,318	3,353	3.9
<b>Corporate and Other</b>							
Plant additions	\$ 63	\$ 47	\$ 48	\$ 61	\$ 99	\$ 44	7.4%
Identifiable assets	1,549	960	1,027	790	1,606	1,446	1.4

+ Compound annual rate method.

(a) Prior years' segment data have been reclassified to conform with the 1988 presentation.

(b) Revenues and sales reflect eliminations of intergroup sales, except for sales of construction and maintenance equipment and supplies by affiliated manufacturing companies to regulated telephone subsidiaries (see Note 1).

(c) Services provided to AT&T constituted approximately 19%, 21%, and 26% of telephone revenues in 1988-1986, respectively.

(d) Amounts shown for periods prior to 1988 include operations transferred to joint ventures and no longer consolidated.

(e) Not available

# Business Group Data

GTE Corporation and Subsidiaries

							Annual Growth Rate +
Continuing Operations <sup>(a)</sup>	1988	1987	1986	1985	1984	1983	(1983-1988)
							(Millions of Dollars)
<b>Telephone Operations</b>							
Operating revenues <sup>(c)</sup> —							
Toll/Access	\$ 5,831	\$ 5,503	\$ 5,117	\$ 4,756	\$ 4,341	\$ 4,639	4.7%
Local	3,521	3,526	3,615	3,493	3,454	3,281	1.4
Other	2,334	2,129	2,018	1,808	1,437	533	34.4
Total revenues	11,686	11,158	10,750	10,057	9,232	8,453	6.7
Operations and maintenance	6,621	5,998	5,690	5,325	4,938	4,597	7.6
Depreciation	2,347	2,281	2,128	1,857	1,724	1,610	7.8
Income before other deductions and income taxes	2,718	2,879	2,932	2,875	2,570	2,246	3.9
Plant additions	2,827	3,003	2,960	2,838	2,490	2,408	3.3
Identifiable assets	24,252	22,946	21,958	20,914	20,002	19,159	4.8
Average investment	17,598	16,946	16,299	15,713	15,198	14,834	3.5
Return on common equity	15.1%	16.2%	17.0%	16.9%	16.3%	15.5%	—
Gross toll messages (in millions)	3,430	3,092	2,837	2,650	2,418	2,278	8.5
Access minutes of use (in millions)	28,565	25,362	22,376	19,875	(e)	(e)	—
Access lines (in thousands)	14,373	13,635	13,087	12,681	12,304	11,950	3.8
Operating company employees (in thousands)	98.6	101.3	102.5	103.0	105.7	109.3	(2.0)
Access lines per employee	145.8	134.6	127.6	123.2	116.4	109.3	5.9
<b>Telecommunications Products and Services<sup>(d)</sup></b>							
Revenues and sales	\$ 2,597	\$ 2,210	\$ 2,537	\$ 2,522	\$ 2,264	\$ 2,341	2.1%
Income before other deductions and income taxes	106	52	126	131	53	149	(6.6)
Depreciation	132	119	114	103	74	64	15.6
Plant additions	297	194	267	349	337	397	(5.6)
Identifiable assets	3,228	2,749	2,783	2,885	2,911	2,091	9.1
Average investment	1,123	861	849	1,081	1,267	1,214	(1.5)
<b>Electrical Products</b>							
Sales	\$ 2,237	\$ 2,129	\$ 1,922	\$ 1,899	\$ 1,853	\$ 1,480	8.6%
Income before other deductions and income taxes	228	222	180	195	212	106	16.6
Depreciation	80	74	63	56	49	43	13.2
Plant additions	101	105	144	106	150	47	16.5
Identifiable assets	2,075	2,090	1,634	1,376	1,222	1,160	12.3
Average investment	1,214	1,123	933	927	861	806	8.5

See Notes to Business Group Data on page 31.

# Consolidated Statements of Income

GTE Corporation and Subsidiaries

	Years Ended December 31		
	1988	1987	1986
	(Thousands of Dollars)		
<i>Revenues and Sales:</i>			
Telephone operations	\$ 11,685,979	\$ 11,158,257	\$ 10,749,949
Other operations	4,773,873	4,262,773	4,361,579
Total revenues and sales	16,459,852	15,421,030	15,111,528
<i>Costs and Expenses:</i>			
Telephone operations	8,967,887	8,279,370	7,818,069
Other operations*	4,440,412	3,988,995	4,055,411
Total costs and expenses	13,408,299	12,268,365	11,873,480
<i>Other Deductions:</i>			
Interest expense—net (Note 10)	913,558	838,133	778,390
Equity in pre-tax loss of US Sprint and predecessor companies (Note 1)	125,131	577,451	285,718
Business repositioning income (Note 2)	—	(130,669)	(92,813)
Other—net (Note 11)	171,902	115,800	176,142
Total other deductions	1,210,591	1,400,715	1,147,437
Income before income taxes	1,840,962	1,751,950	2,090,611
Income tax provision (Note 12)	616,281	633,133	906,299
Net income	1,224,681	1,118,817	1,184,312
Preferred stock dividends of parent	47,762	37,245	31,734
Net income applicable to common stock	\$ 1,176,919	\$ 1,081,572	\$ 1,152,578
<i>Earnings Per Common Share:</i>			
Primary	\$ 3.58	\$ 3.29	\$ 3.53
Fully diluted	\$ 3.53	\$ 3.22	\$ 3.44
Average common shares (in thousands)	328,589	329,171	326,309

\*Includes cost of sales of \$3,685,124, \$3,198,522 and \$3,249,015 for the years 1988–1986, respectively.

See Notes to Financial Statements.



# Consolidated Balance Sheets

GTE Corporation and Subsidiaries

	December 31	
	1988	1987
	(Thousands of Dollars)	
<b>Assets</b>		
<i>Current Assets:</i>		
Cash and temporary cash investments	\$ 306,979	\$ 170,841
Receivables, less allowances of \$98,297 and \$98,120	2,893,661	2,419,766
Inventories	1,263,934	1,283,801
Deferred income tax benefits	266,232	245,977
Other (Note 2)	881,101	214,692
Total current assets	5,611,907	4,335,077
 <i>Property, Plant and Equipment, at cost:</i>		
Telephone subsidiaries	31,739,842	29,593,621
Accumulated depreciation	(10,400,217)	(9,059,202)
	21,339,625	20,534,419
 Other subsidiaries	2,941,798	2,657,772
Accumulated depreciation	(1,294,537)	(1,190,200)
	1,647,261	1,467,572
Total property, plant and equipment, net	22,986,886	22,001,991
 <i>Investments and Other Assets:</i>		
Investments in unconsolidated companies	811,613	1,531,521
Deferred charges	774,462	549,383
Bonds, at amortized cost (Note 1)	388,094	—
Noncurrent receivables (Note 1)	245,069	56,894
Intangibles and other	285,895	270,336
Total investments and other assets	2,505,133	2,408,134
Total assets	\$ 31,103,926	\$ 28,745,202

See Notes to Financial Statements.

December 31

	1988	1987
(Thousands of Dollars)		
<b>Liabilities and Shareholders' Equity</b>		
<i>Current Liabilities:</i>		
Short-term obligations, including current maturities (Note 7)	\$ 1,757,738	\$ 837,067
Accounts and payrolls payable	1,514,144	1,430,558
Accrued taxes	622,751	483,097
Dividends payable	244,084	247,831
Advance billings	227,546	221,098
Accrued business repositioning costs (Note 2)	168,964	312,654
Other	1,334,848	1,078,693
<b>Total current liabilities</b>	<b>5,870,075</b>	<b>4,610,998</b>
<i>Long-Term Debt</i>	<b>9,704,710</b>	<b>9,587,338</b>
<i>Reserves and Deferred Credits:</i>		
Deferred income taxes	3,668,964	3,427,125
Deferred investment tax credits	735,058	890,689
Other	1,329,993	831,314
<b>Total reserves and deferred credits</b>	<b>5,734,015</b>	<b>5,149,128</b>
<i>Preferred Stock, subject to mandatory redemption</i>	<b>301,958</b>	<b>313,866</b>
<i>Shareholders' Equity (Note 4):</i>		
GTE Corporation—		
Preferred stock	504,833	544,030
Common stock—shares issued 349,289,499 and 340,549,668	34,929	34,055
Amounts paid in, in excess of par value	5,067,310	4,769,391
Reinvested earnings	3,978,219	3,637,926
Foreign currency translation adjustment	(16,665)	(83,685)
Common stock held in treasury—23,000,000 and 15,000,000, at cost	(937,279)	(598,428)
<b>Total GTE Corporation</b>	<b>8,631,347</b>	<b>8,303,289</b>
Minority interests in equity of subsidiaries	861,821	780,583
<b>Total shareholders' equity</b>	<b>9,493,168</b>	<b>9,083,872</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 31,103,926</b>	<b>\$ 28,745,202</b>

See accompanying summary on page 38 for details of preferred stock and long-term debt.

See Notes to Financial Statements.

# Consolidated Statements of Cash Flows

GTE Corporation and Subsidiaries

Years Ended December 31

	1988	1987	1986
	(Thousands of Dollars)		
<i>Cash Flows from Operations:</i>			
Net income	\$ 1,224,681	\$ 1,118,817	\$ 1,184,312
Adjustments to reconcile net income to net cash from operations:			
Depreciation	2,559,090	2,473,652	2,305,128
Deferred taxes and investment tax credits	107,627	285,925	609,524
Equity in pre-tax loss of US Sprint and predecessor companies	125,131	577,451	285,718
Change in current assets and current liabilities, excluding the effects of acquisitions and dispositions	(368,531)	(443,012)	(740,722)
Other—net	(90,388)	(122,846)	59,139
Net cash from operations	3,557,610	3,889,987	3,703,099
<i>Cash Flows from Investing:</i>			
Capital expenditures	(3,087,010)	(3,133,896)	(3,125,518)
Investment in US Sprint and predecessor companies	(235,000)	(699,427)	(698,169)
Proceeds from sales of businesses	53,297	13,900	426,854
Other—net	(32,526)	33,001	(129,452)
Net cash used in investing	(3,301,239)	(3,786,422)	(3,526,285)
<i>Cash Flows from Financing:</i>			
GTE common stock issued	291,383	316,041	240,403
Stock of subsidiaries issued	9,919	17,771	41,333
Long-term debt and preferred stock issued	664,313	1,898,804	2,318,204
Long-term debt and preferred stock retirements	(490,556)	(1,104,679)	(1,813,802)
Dividends to shareholders of parent	(903,250)	(853,629)	(752,546)
Preferred dividends of subsidiaries	(33,759)	(36,260)	(45,039)
Purchase of treasury shares	(338,851)	(539,092)	(59,336)
Increase (decrease) in short-term obligations, excluding current maturities	681,254	162,007	(265,562)
Net cash used in financing	(119,547)	(139,037)	(336,345)
Effect of exchange rate changes on cash and temporary cash investments	(686)	(19,775)	(516)
Increase (decrease) in cash and temporary cash investments	136,138	(55,247)	(160,047)
Cash and temporary cash investments:			
Beginning of year	170,841	226,088	386,135
End of year	\$ 306,979	\$ 170,841	\$ 226,088

See Note 13 for supplemental cash flow disclosures.

See Notes to Financial Statements.

**Consolidated Statements of Amounts Paid In, in Excess of Par Value,  
Foreign Currency Translation Adjustment and Reinvested Earnings**

GTE Corporation and Subsidiaries

Years Ended December 31

	1988	1987	1986
	(Thousands of Dollars)		
<b>Amounts Paid In, in Excess of Par Value:</b>			
Balance beginning of year	\$4,769,391	\$4,457,642	\$3,392,568
Three-for-two stock split and reduction in par value of common shares	—	—	703,441
Issuance of common stock	290,536	309,735	224,098
Conversion of long-term debt and preferred stock	7,383	2,014	137,535
Balance end of year	\$5,067,310	\$4,769,391	\$4,457,642
<b>Foreign Currency Translation Adjustment:</b>			
Balance beginning of year	\$ (83,685)	\$ (141,069)	\$ (209,478)
Sale of investment	—	—	22,559
Current period adjustment	67,020	57,384	45,850
Balance end of year	\$ (16,665)	\$ (83,685)	\$ (141,069)
<b>Reinvested Earnings:</b>			
Balance beginning of year	\$3,637,926	\$3,372,738	\$2,940,972
Adjustment for consolidation of foreign subsidiary	18,862	—	—
Net income applicable to common stock	1,176,919	1,081,572	1,152,578
Cash dividends declared on common stock	(855,488)	(816,384)	(720,812)
Balance end of year	\$3,978,219	\$3,637,926	\$3,372,738

See Notes to Financial Statements.

# Consolidated Summary of Preferred Stock and Long-Term Debt

GTE Corporation and Subsidiaries

December 31

	1988	1987
(Thousands of Dollars)		
<b>Preferred Stock (Note 4):</b>		
<i>GTE Corporation:</i>		
No Par, authorized 14,623,225 shares at December 31, 1988:		
Auction rate, Series A to E, 3,450,000 shares outstanding, average rates 7.48% and 6.95%	\$ 345,000	\$ 345,000
\$2.475 series, 4,000,000 shares outstanding	100,000	100,000
\$2.00 Convertible, 1,538,494 and 1,856,026 shares outstanding	32,462	39,162
Convertible adjustable, all series, 279,625 and 915,350 shares outstanding, 6% yields	13,981	45,767
Par value \$50 per share, authorized 7,044,858 shares at December 31, 1988:		
Convertible—239,538 and 253,753 shares outstanding, average rates 5.06% and 5.05%	11,977	12,688
Nonconvertible—28,255 shares outstanding, 4.40% rate	1,413	1,413
	<b>\$ 504,833</b>	<b>\$ 544,030</b>
<b>Preferred Stock, subject to mandatory redemption (Note 5):</b>		
<i>GTE Corporation:</i>		
Par value \$50 per share, authorized 2,413,000 shares at December 31, 1988:		
Nonconvertible—2,413,000 and 2,524,000 shares outstanding, average rate 7.81%	\$ 120,650	\$ 126,200
Telephone Subsidiaries, average rates 7.99% and 8.02%	181,308	187,666
	<b>\$ 301,958</b>	<b>\$ 313,866</b>
<b>Long-Term Debt (exclusive of current maturities) (Note 6):</b>		
<i>GTE Corporation:</i>		
Sinking fund debentures, maturing through 2017, average rates 9.54% and 9.53%	\$ 583,373	\$ 603,881
Debentures, maturing 1992 through 2017, average rates 10.93% and 11.33%	975,000	1,075,000
Other debt, average rates 9.97% and 9.50%	119,394	9,529
	<b>1,677,767</b>	<b>1,688,410</b>
<i>Telephone Subsidiaries:</i>		
First mortgage bonds, sinking fund debentures and notes, maturing through 2028, average rates 8.83% and 8.53%	<b>6,586,575</b>	<b>6,434,544</b>
<i>Other Subsidiaries:</i>		
Sinking fund debentures and notes, maturing through 2009, average rates 8.81% and 8.11%	<b>1,596,037</b>	<b>1,629,451</b>
Total principal amount	<b>9,860,379</b>	<b>9,752,405</b>
Less: discount and premium—net	<b>(155,669)</b>	<b>(165,067)</b>
Total long-term debt	<b>\$9,704,710</b>	<b>\$9,587,338</b>

Preferred stock of telephone subsidiaries not subject to mandatory redemption is included in "Minority interests in equity of subsidiaries" and amounted to \$332,300 and \$332,303 at December 31, 1988 and 1987, respectively.

See Notes to Financial Statements.

### Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments in the company's 20% to 50% owned companies are accounted for on the equity basis, except that the company accounts for its 20% interest in the Siemens AG joint venture on the cost basis. GTE had previously accounted for its 50% interest in US Sprint on the equity basis. However, in July 1988, GTE reached a definitive agreement to reduce its interest in US Sprint to less than 20% and, accordingly, GTE changed to the cost basis for this investment.

During the fourth quarter of 1988, the company adopted Financial Accounting Standard No. 94, which requires the consolidation of all majority-owned subsidiaries, including nonhomogeneous operations not previously consolidated. As a result, the company's 1988 consolidated financial statements include its wholly owned leasing and insurance subsidiaries which were previously accounted for on the equity basis. Additionally, due to improved local conditions, the company commenced consolidation of a foreign subsidiary, previously accounted for on the cost basis. Prior earnings of the subsidiary in excess of previously recorded dividends were credited to shareholders' equity. Although these changes affected certain balance sheet comparisons, they did not have a material effect on GTE's results of operations or financial position.

All significant intercompany items have been eliminated, except for sales of construction and maintenance equipment and supplies by affiliated companies to regulated telephone subsidiaries. These sales amounted to \$828 million, \$741 million and \$872 million in the years 1988-1986, respectively, and were made at prices which compare favorably with those at which comparable equipment could be obtained elsewhere. These amounts were recorded at cost by the telephone subsidiaries, including a reasonable return on investment realized by the affiliated companies.

Reclassifications of prior year data have been made in the financial statements where appropriate to conform to the 1988 presentation.

### Depreciation

The telephone subsidiaries provide for depreciation generally using the straight-line method. Depreciation provisions in 1988-1986 were equivalent to a composite average percentage of 8.0%, 8.5% and 8.4%, respectively. Other subsidiaries record depreciation using straight-line and accelerated methods.

### Inventories

Inventories are stated at the lower of cost or market value. Cost of inventories is determined principally by the average

or first-in, first-out method of inventory valuation. Inventories at December 31 were as follows (in thousands of dollars):

	1988	1987
Finished goods	\$ 483,586	\$ 534,508
Work in process	297,423	302,562
Raw materials	221,128	219,886
Materials and supplies of telephone subsidiaries	261,797	226,845
Total	\$1,263,934	\$1,283,801

### Foreign Currency Translation

Assets and liabilities of subsidiaries operating in foreign countries are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the period. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are included as part of the Foreign Currency Translation Adjustment component of shareholders' equity, while gains and losses resulting from foreign currency transactions are generally included in income.

### Income Taxes

GTE generally provides for deferred income taxes resulting from timing differences between the amounts reported for financial accounting and income tax purposes, which differences relate primarily to depreciation expense.

Included in telephone plant are allowances for funds used during construction and certain pension costs, sales and use taxes and payroll taxes applicable to plant construction, including certain costs which were deducted for tax purposes prior to the implementation of the Tax Reform Act of 1986. In certain regulatory jurisdictions the income tax effects of such timing differences were not deferred in accordance with rate-making practices. These timing differences amounted to \$919 million at December 31, 1988.

Foreign subsidiaries compute income taxes at rates in effect in the various countries. Earnings of these subsidiaries may also be subject to additional income and withholding taxes when they are distributed as dividends. These additional taxes, net of applicable tax credits, are also accrued currently, except for taxes related to earnings which are not expected to be remitted because they will be permanently reinvested locally by the foreign subsidiary. Undistributed earnings of foreign subsidiaries deemed to be permanently reinvested were approximately \$209 million at December 31, 1988.

In December 1987, the Financial Accounting Standards Board issued Statement No. 96 entitled "Accounting for Income Taxes" which significantly changes the method by which companies will account for income taxes. Among other things, the new statement will require establishment of deferred tax accounts for all temporary differences between the book and tax bases of assets and liabilities, including

those which have not been previously recognized in accordance with ratemaking practices. In addition, contrary to existing practice, deferred tax accounts must be adjusted whenever new tax rates are enacted into law. Implementation of the new accounting standard, which must be adopted by the first quarter of 1990, requires approval by various regulatory commissions to determine the ratemaking treatments. However, when adopted, GTE does not expect that the new accounting will materially affect its results of operations.

In 1985, GTE initiated a plan to reposition its telecommunications operations, which included the divestment of certain manufacturing and service operations. As a result, during 1986 and 1987, it disposed of various interests in its switching, transmission and business communications businesses through sale or by forming joint ventures in which GTE held a minority interest. These actions resulted in pre-tax repositioning gains of \$131 million in 1987 and \$93 million in 1986, which on an after-tax basis amounted to \$73 million or \$.22 per share in 1987 and \$32 million or \$.10 per share in 1986.

On January 3, 1989, GTE completed the sale of a 30.1% interest in US Sprint, a joint venture formed in 1986 with United Telecommunications, Inc. ("United") to market long-distance telephone and data transmission services.

Upon closing GTE received an interim payment of \$585 million representing the approximate book value of the interest sold, which has been reclassified to other current assets at December 31, 1988. GTE now retains a 19.9% interest in the venture which is subject to call by United before the end of 1995. GTE also has an option to sell its remaining interest to United between December 31, 1991 and December 31, 1995.

On January 3, 1989, GTE also formed a joint venture with American Telephone and Telegraph Company (AT&T) involving GTE's domestic network switching business. AT&T paid GTE approximate book value for its 49% interest in the new venture, with GTE retaining a 51% interest. The agreement also provides that AT&T will assume 80% ownership after five years and 100% after fifteen years through the purchases of GTE's interest at approximate book value at the dates of purchase.

Effective January 1, 1988, GTE's regulated telephone companies adopted a new Uniform System of Accounts (Part 32) as required by the Federal Communications Commission. The new system represents a comprehensive revision of the former system of accounts and conforms the accounting more closely to the accounting principles followed by non-regulated enterprises. The new system requires, among other

things, that indirect construction costs and software costs, which were capitalizable under the former system, be expensed beginning in 1988. Regulatory commissions generally allowed the recovery of these additional costs through rate increases or by allowing the telephone companies to retain the benefit of the lower federal income tax rate which was also in effect in 1988. As a result, while income before other deductions and income taxes for the telephone operations was lower in 1988 than in 1987, the change had no material effect on net income.

### Common Stock

The authorized common stock of GTE at December 31, 1988 consisted of 750,000,000 shares with a par value of \$.10 per share. Shares of common stock issued were as follows:

	1988	1987	1986
Three-for-two stock split*	—	—	110,488,040
Employee Stock Purchase Plan	4,090,221	4,033,510	2,710,319
Shareholder Systematic Investment Plan	2,175,306	2,193,223	1,419,060
Employee Savings and Investment Plan	2,138,526	2,315,645	1,262,120
Conversions of debentures and preferred stock	267,628	54,221	3,307,337
Employee Stock Ownership Plan	—	474,806	400,496
Other	68,150	14,143	36,930
<b>Total</b>	<b>8,739,831</b>	<b>9,085,548</b>	<b>119,624,302</b>

\*The par value of the common stock was reduced from \$3.33<sup>1</sup>/<sub>8</sub> to \$.10 per share at the time of the stock split.

As of December 31, 1988, 30,966,962 shares were reserved for issuance under the various plans indicated above.

### Preferred Stock

All preferred stock, except the \$2.475 and the auction rate series, have voting rights generally on an equal basis with common stock. The shares of the \$2.475 Series are entitled to half of a vote for each share. The auction rate preferred stock does not have voting rights, except under certain circumstances. Dividends are cumulative on all preferred stocks.

As of December 31, 1988, each share of \$50 convertible preferred stock is convertible into 1.32 common shares, except for the 5.00%, 4.00%, 4.36% and 5.28% series which are convertible into 1.34, 1.80, 3.47 and 4.53 common shares, respectively. Each share of 6.00% convertible adjustable preferred stock is convertible into shares of common stock having an aggregate market value of \$50, subject to certain maximum limitations. Moreover, at December 31, 1988, each share of \$2.00 convertible preferred stock is convertible into .78 common shares. During the years 1988-1986 preferred

shares totaling 331,747, 43,824 and 69,305 were converted into 267,628, 54,073 and 60,529 common shares, respectively.

All series of the auction rate preferred stock are redeemable at the option of GTE in units of 1,000 shares at \$100,000 per unit plus accrued dividends. The dividend rate for each series of auction preferred stock is set pursuant to an auction procedure conducted prior to the commencement of the dividend period, generally 49 days. The dividend rates may range from 110% to 150% of the 60-day "AA" Composite Commercial Paper Rate.

### Reinvested Earnings

Reinvested earnings at December 31, 1988 included \$3.2 billion of undistributed earnings of subsidiaries. Although these earnings were substantially unrestricted for payment of cash dividends, a significant portion has been permanently reinvested and is not currently remittable.

Certain outstanding preferred stocks of GTE and its subsidiaries are redeemable at any time, in whole or in part, upon notice at a premium and certain issues may be redeemed without premiums through annual sinking funds.

Shares of GTE's preferred stock redeemed totaled 111,000, 111,000 and 956,000 in the years 1988-1986, respectively. Shares of GTE's telephone subsidiaries preferred stock redeemed totaled 253,871, 639,296 and 2,714,276 shares in the years 1988-1986, respectively.

The aggregate redemption requirements of preferred stock subject to mandatory redemption during the next five years are as follows (in thousands of dollars):

	Total	GTE	Telephone Subsidiaries
1989	\$16,912	\$5,550	\$11,362
1990	17,590	5,550	12,040
1991	17,600	5,550	12,050
1992	13,658	5,550	8,108
1993	13,658	5,550	8,108

The aggregate voluntary redemption prices at December 31, 1988, amounted to \$126 million for GTE and \$188 million for its telephone subsidiaries.

Long-term debt as of December 31, 1988 includes \$317 million of debt due within one year which will be refinanced by the use of existing revolving credit arrangements or other financing arrangements that will extend their maturities beyond one year.

Estimated payments of long-term debt during the next five years are as follows (in thousands of dollars):

	Total	GTE	Telephone Subsidiaries	Other Subsidiaries
1989	\$459,462	\$ 11,450	\$140,923	\$307,089
1990	289,870	11,950	124,544	153,376
1991	469,287	28,450	238,918	201,919
1992	507,419	81,250	177,778	248,391
1993	369,647	106,250	115,840	147,557

Telephone companies finance part of their construction programs through the use of interim short-term loans, including commercial paper, which are generally refinanced at later dates by issues of long-term debt or equity. Other short-term obligations are required to meet working capital requirements. Total short-term obligations, including loans for construction expected to be refinanced of \$395 million and \$477 million at December 31, 1988 and 1987, respectively, were as follows (in thousands of dollars):

	1988	1987
Commercial paper—average rates 9.4% and 7.6%	\$ 850,306	\$447,439
Notes payable to banks—average rates 9.1% and 8.8%	447,970	168,081
Current maturities of long-term debt	459,462	221,547
Total	\$1,757,738	\$837,067

GTE and its subsidiaries had unused lines of credit aggregating \$1.8 billion at December 31, 1988, which were available to support outstanding commercial paper and other short-term financing needs.

Most subsidiaries have trustee, non-contributory, defined benefit pension plans covering substantially all employees. The benefits to be paid under these plans are generally based on years of credited service and average final earnings. The company's funding policy, subject to the minimum funding requirements of U.S. employee benefit and tax laws, is to contribute such amounts as are determined on an actuarial basis to provide the plan with assets sufficient to meet the benefit obligations of the plan. The assets of the plan consist primarily of corporate equities, government securities and fixed income investments.

Effective January 1, 1987, the company adopted Statements of Financial Accounting Standards Nos. 87 and 88 governing the accounting for pension costs. Implementation of the new standards resulted in a net pension credit of \$26 million in 1988 and \$16 million in 1987 compared with a pension expense of \$305 million in 1986 under the previous accounting method. A substantial portion of the lower pension costs



due to the adoption of the new standards relates to GTE's regulated operations or to government contracts and were largely offset in the ratemaking process or by contract. With respect to GTE's other nonregulated operations, the change resulted in an increase in net income in 1987 of approximately \$54 million or \$.16 per share.

The 1988 and 1987 net pension credit included the following components (in thousands of dollars):

	1988	1987
Service cost—benefits earned during the period	\$ 255,903	\$ 259,810
Interest cost on projected benefit obligations	403,071	376,326
Actual return on plan assets	(1,300,967)	(729,444)
Other, net	615,797	77,086
Net pension credit	\$ (26,196)	\$ (16,222)

The funded status of the plans at December 31, 1988 and 1987 was as follows (in thousands of dollars):

	1988	1987
Plan assets at fair value	\$ 9,074,000	\$ 8,254,000
Projected benefit obligation	5,781,000	5,609,000
Excess of assets over projected obligation	3,293,000	2,645,000
Unrecognized net transition asset	(2,126,000)	(2,374,000)
Unrecognized net gain	(928,000)	(127,000)
Prepaid pension cost	\$ 239,000	\$ 144,000

The projected benefit obligations at December 31, 1988 and 1987 were determined using a projected increase in compensation levels of 6% and an assumed discount rate of 7.5% for 1988 and 1987. The assumed long-term rate of return on plan assets was 7.5% and 7.0% for 1988 and 1987, respectively. The portion of the projected benefit obligations representing the accumulated benefit obligations was \$3.9 billion and \$3.7 billion and the vested benefit obligations were \$3.4 billion and \$3.3 billion as of December 31, 1988 and 1987, respectively.

GTE and its subsidiaries generally provide health care and life insurance benefits to retirees. Benefits for eligible retirees are expensed as incurred and amounted to \$57 million in 1988. Currently, the Financial Accounting Standards Board is considering whether current accounting standards should be changed to require the estimated costs of these benefits to be accrued over the service life of employees expected to receive them. If this change were required, GTE's annual expense for these benefits would increase significantly in future periods. However, a substantial portion of such an increase would be related to GTE's regulated telephone operations, which are subject to rate of return regulation. Accordingly, GTE expects that additional expenses recognized would be largely offset in the ratemaking process.

The company and its subsidiaries have non-cancelable lease contracts covering certain buildings, office space, satellite transponders and equipment. Rental expense was \$470 million, \$476 million, and \$471 million for 1988-1986, respectively. Minimum rental commitments under non-cancelable leases through 1993 do not exceed \$285 million annually and aggregate \$317 million thereafter.

The components of interest expense—net are as follows (in thousands of dollars):

	1988	1987	1986
Interest expense	\$1,025,931	\$953,492	\$932,361
Allowance for funds used and interest capitalized during construction	(55,546)	(68,657)	(91,495)
Interest income	(56,827)	(46,702)	(62,476)
Total	\$ 913,558	\$838,133	\$778,390

The components of other—net are as follows (in thousands of dollars):

	1988	1987	1986
General corporate expenses	\$146,148	\$135,773	\$159,673
Preferred dividends of subsidiaries	33,759	36,260	45,039
Minority interests	69,014	56,622	46,561
Premium on early extinguishment of debt	—	—	29,442
Sales of real estate and other assets	(21,686)	(26,009)	(55,822)
Other	(55,333)	(86,846)	(48,751)
Total	\$171,902	\$115,800	\$176,142

Income before income taxes is as follows (in thousands of dollars):

	1988	1987	1986
Domestic	\$1,521,343	\$1,483,881	\$1,823,153
Foreign	319,619	268,069	267,458
Total	\$1,840,962	\$1,751,950	\$2,090,611

The provision for income taxes is as follows (in thousands of dollars):

	1988	1987	1986
Current			
Federal	\$237,019	\$140,255	\$ 30,129
Foreign	191,661	163,022	154,117
State and local	79,974	43,931	112,529
	<b>508,654</b>	<b>347,208</b>	<b>296,775</b>
Deferred			
Federal	252,583	385,682	622,859
Foreign	3,051	6,762	12,472
State and local	7,768	14,512	3,003
	<b>263,402</b>	<b>406,956</b>	<b>638,334</b>
Deferred investment tax credits—net	(155,775)	(121,031)	(28,810)
Total	<b>\$616,281</b>	<b>\$633,133</b>	<b>\$906,299</b>

Deferred investment tax credits-net includes amortization of investment tax credits previously deferred by GTE's regulated telephone operations. Investment tax credits were eliminated by the Tax Reform Act of 1986, except for certain limited credits under transition provisions of the Act. Amortization of previously deferred credits included in deferred investment tax credits-net amounted to \$155 million in 1988 and 1987 and \$147 million in 1986. Deferred investment tax credits subject to future amortization amounted to approximately \$735 million at December 31, 1988.

Included in deferred income taxes are provisions applicable to accelerated depreciation of \$122 million, \$133 million and \$20 million in 1988-1986, respectively. Also included are deferred tax provisions applicable to business repositioning of \$46 million, \$81 million and \$536 million in 1988-1986, respectively.

A reconciliation between taxes computed by applying the statutory federal income tax rates to pre-tax income and income taxes provided in GTE's consolidated statements of income is as follows (in thousands of dollars):

	1988	1987	1986
Computed amounts at statutory rates	\$625,927	\$699,904	\$961,681
State and local income taxes, net of federal tax benefits	57,910	35,095	62,387
Minority interests and preferred stock dividends of subsidiaries	34,943	37,106	42,136
Investment tax credits	(164,304)	(181,097)	(176,195)
Depreciation of telephone plant construction costs previously deducted for tax purposes—net	58,237	48,464	43,829
Rate differentials on turnaround of deferred tax balances	(66,780)	(32,806)	—
Other differences—net	70,348	26,467	(27,539)
Total provision	<b>\$616,281</b>	<b>\$633,133</b>	<b>\$906,299</b>

In 1988, GTE adopted Financial Accounting Standard No. 95, "Statement of Cash Flows," and restated prior years. For purposes of this statement, cash and temporary investments include cash and highly liquid investments with maturities at acquisition of not more than 90 days.

Set forth below is information with respect to changes in components of working capital and cash paid for interest and income taxes (in thousands of dollars):

	1988	1987	1986
(Increase) decrease in assets:			
Receivables—net	\$(625,140)	\$(443,253)	\$(477,450)
Inventories	19,867	(58,277)	(77,725)
Other current assets	(101,664)	182,804	(185,202)
Increase (decrease) in liabilities:			
Accounts and payrolls payable	83,586	248,791	(48,678)
Accrued taxes	139,654	(168,982)	187,027
Other current liabilities	115,166	(204,095)	(138,694)
	<b>\$(368,531)</b>	<b>\$(443,012)</b>	<b>\$(740,722)</b>
Cash paid during the year for:			
Interest	\$ 982,173	\$ 908,671	\$ 945,863
Income taxes	352,624	516,202	111,329

The company also had certain non-cash investing and financing activities. These included the assumption in 1986 of \$107 million of liabilities in connection with acquisitions for which GTE also paid \$174 million in cash. In that year GTE also transferred liabilities totaling \$381 million in connection with the sales of certain businesses for which GTE received \$427 million in cash. Other non-cash transactions involved conversions of debt into common stock which reduced liabilities by \$7 million, \$2 million and \$152 million in 1988-1986.

In February 1989, the Public Utility Commission of Texas (PUC) informed GTE Southwest, a subsidiary of the company, that it intends to issue an order which will reduce customer rates by approximately \$60 million annually and is expected to provide for customer refunds of approximately \$150 million.

The proposed order raises a number of significant issues. GTE Southwest intends to vigorously contest the order by petitioning the PUC for rehearing and, if necessary, seeking relief in the courts. The ultimate outcome of this matter is not presently determinable, however, the company believes that it will not have a material effect on its consolidated financial position.

Industry segment data is shown on pages 31 and 32.

## Independent Public Accountants' and Management Reports

### Report of Independent Public Accountants

*To the Board of Directors and Shareholders of GTE Corporation:*

We have audited the accompanying consolidated balance sheets and summary of preferred stock and long-term debt of GTE Corporation (a New York corporation) and subsidiaries as of December 31, 1988 and 1987 and the related consolidated statements of income, amounts paid in, in excess of par value, foreign currency translation adjustment, reinvested earnings and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GTE Corporation and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.



New York, New York,  
February 6, 1989.

### Management Report

*To Our Shareholders:*

The management of GTE is responsible for the integrity and objectivity of the financial and operating information contained in this Annual Report, including the consolidated financial statements covered by the Report of Independent Public Accountants. These statements were prepared in conformity with generally accepted accounting principles and include amounts that are based on the best estimates and judgments of management.

The company has a system of internal accounting controls which provides management with reasonable assurance that transactions are recorded and executed in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are maintained so as to permit preparation of financial statements in accordance with generally accepted accounting principles. This system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. The company also has instituted policies and guidelines which require employees to maintain the highest level of ethical standards.

In addition, the Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, the internal auditors and the independent public accountants to review internal accounting controls, audit results and accounting principles and practices, and annually recommends to the Board of Directors the selection of independent public accountants.



**James L. Johnson**  
Chairman and Chief  
Executive Officer



**Nicholas L. Trivisonno**  
Senior Vice President—Finance  
and Chief Financial Officer

**Quarterly Financial Data** (In Millions)  
(unaudited)

GTE Corporation and Subsidiaries

	1st QTR		2nd QTR <sup>(b)</sup>		3rd QTR		4th QTR <sup>(c)</sup>	
	1988	1987	1988	1987	1988	1987	1988	1987
Revenues and sales	\$ 3,943	\$ 3,694	\$ 4,207	\$ 3,846	\$ 4,001	\$ 3,806	\$ 4,309	\$ 4,075
Income before other deductions and income taxes <sup>(a)</sup>	768	806	803	857	740	781	741	709
Consolidated net income applicable to common stock	274	258	288	215	301	287	314	322
Primary earnings per common share	\$ .84	\$ .78	\$ .87	\$ .66	\$ .91	\$ .86	\$ .96	\$ .99
Fully diluted earnings per common share	\$ .83	\$ .77	\$ .86	\$ .64	\$ .89	\$ .85	\$ .95	\$ .96
Common dividends declared	\$ .63	\$ .61	\$ .63	\$ .61	\$ .67	\$ .63	\$ .67	\$ .63
Common stock market price								
High	\$ 39.50	\$ 42.50	\$ 39.38	\$ 42.50	\$ 43.75	\$ 44.75	\$ 45.88	\$ 43.88
Low	34.00	38.92	33.75	33.50	37.88	37.50	42.13	29.38
Close	35.63	41.13	39.13	38.50	43.63	41.50	44.50	35.38

<sup>(a)</sup> The decreases in income before other deductions and income taxes were primarily due to increased expenses resulting from an accounting change mandated by the FCC. This change, which was effective in 1988, required the expensing of certain costs that were capitalized under the previous accounting method. However, these decreases were largely offset in the ratemaking process primarily through the retention of the benefits of the lower federal income tax rate so that there was no material effect on net income.

<sup>(b)</sup> The second quarter of 1988 includes a nonrecurring net gain of \$17 million or \$.05 per share due primarily to a change in accounting for telephone directory revenues which increased net income by \$34 million or \$.10 per share; the second quarter of 1987 includes a net charge which decreased net income by \$54 million or \$.16 per share, representing GTE's 50% share of a \$350 million pre-tax writedown at US Sprint, partially offset by pension settlement gains recognized by GTE during the quarter.

<sup>(c)</sup> 1987 includes gains from pension settlements and a sale of real estate which increased net income in the fourth quarter by \$26 million or \$.08 per share.

### Insurance Indemnification

The corporation has purchased indemnification insurance covering directors and officers elected or appointed by the Boards of Directors of GTE and its subsidiaries, as well as fiduciary liability insurance covering all directors and officers of its United States and Canadian subsidiaries who act in the capacity of fiduciaries in the management or administration of the pension and welfare plans or funds of GTE and such subsidiaries. The directors' and officers' indemnification insurance and fiduciary liability insurance coverage are written by various underwriters and were placed during the second quarter and fourth quarter of 1988, respectively, each for a one-year period at a total cost to the parent company and GTE Service Corporation of \$438,290.

## Members of the Board of Directors



*From left to right: George V. Grune, Charles R. Lee, Richard W. Jones, Roger W. Stone*



*From left to right: Allan L. Rayfield, Edward C. Schmults, James R. Barker, James W. Walter, James L. Ketelsen*



*From left to right: Russell E. Palmer, Bruce Carswell, Edwin L. Artzt, Sandra Q. Moose, T. Justin Moore, Jr.*



*From left to right: James L. Johnson, Edward H. Budd, Michael T. Mastn, Robert D. Storey*

## Directors

**Edwin L. Artzt<sup>1,3</sup>**  
Vice Chairman of the Board  
The Procter & Gamble  
Company, and President  
Procter & Gamble  
International

**James R. Barker<sup>1,3</sup>**  
Chairman, The Interlake  
Steamship Co., and  
Vice Chairman  
Mormac Marine Group, Inc.

**Edward H. Budd<sup>2,5,6</sup>**  
Chairman, Chief Executive  
Officer and President  
The Travelers Corporation

**Bruce Carswell**  
Senior Vice President  
Human Resources  
and Administration, GTE

**George V. Grune<sup>4,5</sup>**  
Chairman and Chief  
Executive Officer  
The Reader's Digest  
Association, Inc.

**James L. Johnson**  
Chairman and Chief  
Executive Officer, GTE

**Richard W. Jones<sup>3,4</sup>**  
Business Consultant  
PaineWebber Incorporated

**James L. Ketelsen<sup>1,2</sup>**  
Chairman and Chief  
Executive Officer  
Tenneco Inc.

**Charles R. Lee**  
President and Chief  
Operating Officer, GTE

**Michael T. Masin**  
Partner  
O'Melveny & Myers

**T. Justin Moore, Jr.<sup>2,4,6</sup>**  
Counsel  
Hunton & Williams

**Sandra O. Moose<sup>1,5</sup>**  
Vice President, Director  
and Managing Director of  
the New York office,  
The Boston Consulting  
Group, Inc.

**Russell E. Palmer<sup>2,4</sup>**  
Dean, The Wharton School,  
University of Pennsylvania

**Allan L. Rayfield**  
Senior Vice President  
Joint Venture Operations, GTE

**Edward C. Schmults**  
Senior Vice President  
External Affairs and  
General Counsel, GTE

**Roger W. Stone<sup>3,5</sup>**  
Chairman, President  
and Chief Executive Officer  
Stone Container Corporation

**Robert D. Storey<sup>4,5</sup>**  
Partner  
Burke, Haber & Berick

**James W. Walter<sup>1,2,6</sup>**  
Chairman of the Board  
Walter Industries, Inc.

1 Audit Committee

2 Executive Compensation Committee

3 Nominating Committee

4 Pension Trust Coordinating Committee

5 Public Policy Committee

6 Committee on Organizational Structure

## Officers

**James L. Johnson\***  
Chairman and  
Chief Executive Officer

**Charles R. Lee\***  
President and  
Chief Operating Officer

**Bruce Carswell\***  
Senior Vice President  
Human Resources  
and Administration

**Allan L. Rayfield\***  
Senior Vice President  
Joint Venture Operations

**Nicholas L. Trivisonno\***  
Senior Vice President  
Finance

**Edward C. Schmults\***  
Senior Vice President  
External Affairs and  
General Counsel

\*Members of Policy Committee

**Claude A. Burleson**  
Vice President, Taxes

**Marianne Drost**  
Corporate Secretary

**Bruce E. Haddad**  
Vice President  
and Controller

**Edward C. MacEwen**  
Vice President  
Corporate Communications

**Donald A. Mitchell**  
Vice President  
Planning and Development

**James Murphy**  
Vice President and  
Treasurer

**Timothy P. Murphy**  
Vice President  
Investor Relations and  
Financial Administration

**John C. Redmond**  
Vice President, Research  
and Engineering and  
President, GTE Laboratories

**Samuel F. Shawhan, Jr.**  
Vice President  
Government Affairs

**D. Otis Wolkins**  
Vice President  
Quality Services

## Corporate Information

### Principal Financial Contact

For further information about GTE Corporation and its subsidiaries, please contact:

Timothy P. Murphy  
Vice President  
Investor Relations and  
Financial Administration  
GTE Corporation  
One Stamford Forum  
Stamford, CT 06904  
(203) 965-2789  
Int'l. Telex: 4750071  
Facsimile: (203) 965-2520

### Shareholder Systematic Investment Plan

The Shareholder Systematic Investment Plan provides holders of the Corporation's common stock with a convenient way to purchase additional shares. Shareholders wishing information regarding the plan may write to: GTE Shareholder Services Incorporated, P.O. Box 158, North Quincy, MA 02171, or call toll-free (800) 225-5160.

### 10-K Report

A copy of our Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained by writing to the Corporate Secretary's Office, GTE Corporation, One Stamford Forum, Stamford, CT 06904.

### Stock Ownership Questions

Please address questions concerning ownership of common, preferred or no par preferred stock to GTE Shareholder Services Incorporated, P.O. Box 37, North Quincy, MA 02171, or call (800) 225-5160.

### Stock Exchange Listings

The common stock of GTE Corporation (symbol: GTE) is listed on the New York Stock Exchange, Inc., the Midwest Stock Exchange, Incorporated, and The Pacific Stock Exchange Incorporated and is traded on other exchanges in the United States; it is listed also in Europe on The Stock Exchange, London; the Amsterdam Stock Exchange; the Basel Stock Exchange; the Geneva Stock Exchange; the Lausanne Stock Exchange; the Paris Stock Exchange and the Zurich Stock Exchange.

The Corporation's 5.00% convertible preferred stock, \$2.00 convertible no par preferred stock and \$2.475 no par preferred stock are listed on the New York Stock Exchange, Inc.

The information in this report is not given in connection with any sale or offer to buy any securities.

### Transfer Agents (T/A)

#### and Registrars (R)

*Common Stock, Preferred Stock and No Par Preferred Stock*

GTE Shareholder Services  
Incorporated (T/A)  
P.O. Box 37  
North Quincy, MA 02171

GTE Shareholder Services  
Incorporated (T/A)  
50 Broadway  
New York, NY 10004

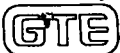
State Street Bank and  
Trust Company (R)  
P.O. Box 5003  
Boston, MA 02107

### Annual Meeting

The 1989 annual meeting of shareholders will be held on April 19 at the Italian Center, Stamford, Connecticut. Formal notice of the meeting, proxy statement and proxy card will be mailed on or about March 2.

### Auditors

Arthur Andersen & Co.  
1345 Avenue of the Americas  
New York, NY 10105



GTE Corporation  
One Stamford Forum  
Stamford, CT 06904  
(203) 965-2000

